



California Stock Report Empire

"We Know California Stocks"

P.O. Box 81518, San Diego, CA 92138 phone: (866) 928-2600 fax (619) 523-6260 www.CaliforniaStocks.com

The California Top 20

Rating*	Symbol	Company	Close	Headquarters
1.8	DNA	Genentech	\$83.68	<i>S. San Francisco</i>
1.9	RMD	ResMed	\$48.92	<i>Poway</i>
1.9	JCOM	J2 Global Comm.	\$27.88	<i>Los Angeles</i>
1.9	CSCO	Cisco Systems	\$28.47	<i>San Jose</i>
1.9	MXIM	Maxim Integrated	\$31.31	<i>Sunnyvale</i>
1.9	DJO	DJO, Inc.	\$43.00	<i>Vista</i>
2.0	CVX	Chevron	\$70.55	<i>San Ramon</i>
2.0	DIS	Disney	\$34.19	<i>Burbank</i>
2.0	CBG	CB Richard Ellis	\$33.10	<i>El Segundo</i>
2.0	KRC	Kilroy Realty	\$77.86	<i>Los Angeles</i>
2.0	PSA	Public Storage	\$97.05	<i>Glendale</i>
2.0	BEN	Franklin Resources	\$111.77	<i>San Mateo</i>
2.0	BRE	BRE Properties	\$63.25	<i>San Francisco</i>
2.0	AGN	Allergan	\$119.63	<i>Irvine</i>
2.0	GES	Guess?	\$65.83	<i>Los Angeles</i>
2.0	ADSK	Autodesk	\$41.93	<i>San Rafael</i>
2.0	ADBE	Adobe Systems	\$40.62	<i>San Jose</i>
2.0	QLGC	QLogic	\$21.86	<i>Aliso Viejo</i>
2.0	HPQ	Hewlett-Packard	\$42.20	<i>Palo Alto</i>
2.0	CNXT	Conexant Systems	\$2.11	<i>Newport Beach</i>

*Please refer to page 8 to understand our unique ratings system.

January 2007

In This Issue

Fourth Quarter Earnings Will Set the Tone For Q1

California investors are eagerly awaiting the flood of fourth quarter earnings that begin with Genentech on January 10th. The big question to be answered is just what effect, if any, the Fed's campaign of higher interest rates will have on earnings. Early indications point to a solid quarter ahead.

See California Stocks on Page 12

January Pick

Affymetrix (AFFX)

Our January stock selection is genetic analysis firm Affymetrix. After a tough 2006, we expect 2007 to be an exciting year for the company following the recent launch of an important new product and cost benefits from a restructuring.

Full Report on Page 10

California Portfolio's

CSR's Select Stock Portfolios

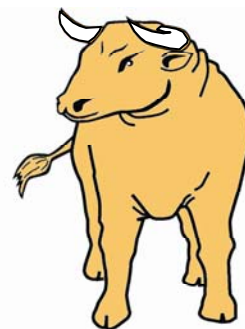
January brings the introduction of our California Golden Bears "stocks to avoid" portfolio on page 6.

The Golden Bulls portfolio was mixed in December although smaller stocks led the Golden Bulls Small-Cap portfolio on page 4.

Portfolio's on Pages 2-7

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California's Golden Bulls



California Leading-Edge \$100,000 Growth Portfolio

Symbol	Company	Close Jan. 5	Monthly Change	Shares Bought	Purchase Price	Current Value	Gain/Loss	Business
ADBE	Adobe Systems	\$40.62	\$1.27	150	\$26.64	\$6,093.00	\$2,097.00	Design Software
AFFX	>Affymetrix	\$24.48	-	164	\$24.48	4,014.72	-	Genetic Analysis Products
AMB	AMB Property	\$56.75	(\$4.60)	79	\$50.85	\$4,483.25	\$466.10	REIT-Industrial properties
AMGN	Amgen	\$71.50	\$2.12	50	\$79.77	\$3,575.00	(\$413.50)	Biotechnology
AMLN	Amylin Pharm.	\$37.61	(\$1.67)	92	\$43.25	\$3,460.12	(\$518.88)	Biotechnology
BMR	BioMed Realty Trust	\$27.86	(\$2.47)	143	\$28.00	\$3,983.98	(\$20.02)	REIT: Medical Properties
CSCO	Cisco Systems	\$28.47	\$1.78	192	\$20.82	\$5,466.24	\$1,468.80	Networking Routers
DIS	Disney	\$34.19	\$1.10	166	\$24.13	\$5,675.54	\$1,669.96	Media/Theme Parks
DJO	DJO, Inc.	\$43.00	(\$1.09)	108	\$36.93	\$4,644.00	\$655.56	Medical devices: soft tissue
DLB	Dolby Labs	\$31.20	\$3.59	170	\$23.47	\$5,304.00	\$1,314.10	Noise Reduction, Sound
DNA	Genentech	\$83.68	\$0.97	48	\$83.61	\$4,016.64	\$3.36	Biotechnology
DTV	DirecTV Group	\$24.36	\$1.66	225	\$17.79	\$5,481.00	\$1,478.25	Digital TV
DVA	DaVita	\$54.85	\$0.70	72	\$55.39	\$3,949.20	(\$38.88)	Kidney Dialysis Centers
EW	Edwards Lifesciences	\$47.90	\$1.93	91	\$43.90	\$4,358.90	\$364.00	Heart Valves, Devices
EWBC	-East West Bancorp	\$35.37	(\$0.10)	98	\$40.91	\$3,466.26	(\$542.92)	Regional Bank
HPQ	Hewlett-Packard	\$42.20	\$2.76	162	\$24.62	\$6,836.40	\$2,847.96	Printers, PCs
LDG	Longs Drug Stores	\$41.23	\$0.61	88	\$45.58	\$3,628.24	(\$382.80)	Drug Store chain
LSI	LSI Logic	\$9.20	(\$1.36)	404	\$9.90	\$3,716.80	(\$282.80)	Semiconductors, storage
MVSN	Macrovision	\$26.93	(\$0.65)	168	\$23.79	\$4,524.24	\$527.52	Software: Copy Protection
ORCL	Oracle	\$17.64	(\$1.17)	275	\$14.56	\$4,851.00	\$847.00	Software: Database
OXY	Occidental Petroleum	\$45.45	(\$4.96)	99	\$40.48	\$4,499.55	\$492.03	Oil & Gas
RS	Reliance Steel & Alum	\$35.40	\$1.81	128	\$31.15	\$4,531.20	\$544.00	Steel, aluminum processing
QCOM	Qualcomm	\$38.69	\$2.34	101	\$39.48	\$3,907.69	(\$79.79)	CDMA Wireless Comm.
RMD	ResMed	\$48.92	(\$0.88)	91	\$43.76	\$4,451.72	\$469.56	Medical Devices: Respiratory
PAY	VeriFone Holdings	\$38.36	\$0.51	128	\$31.25	\$4,910.08	\$910.08	Electronic Payment
SCHW	Charles Schwab	\$19.20	\$1.18	298	\$13.41	\$5,721.60	\$1,725.42	Investment Brokerage
*Based on Initial Position Investment of \$4,000. Portfolio Inception: 8/1/2005						Total:	\$15,601.11	
NASDAQ Return from August 1, 2005: +10.9%				Overall Portfolio Return:		\$13,797.57	+13.8%	

CALIFORNIA'S GOLDEN BULLS

Shares of the California Golden Bulls had a solid run in December. However, weakness in interest-rate sensitive stocks, particularly REITs, and a large sell-off in oil stock **Occidental Petroleum** dampened gains.

We are adding January stock selection **Affymetrix** this month as a turnaround play with solid institutional buying (see page 10). In turn, we are recommending the sale of **East West Bancorp**.

Shares of our two REIT holdings **AMB** and **BioMed** took a thrashing in December as stronger economic data dashed hopes that the Fed would be lowering interest rates in the first half of 2007. We recommend holding onto these stocks for now but might consider trimming positions into strength (see page 23).

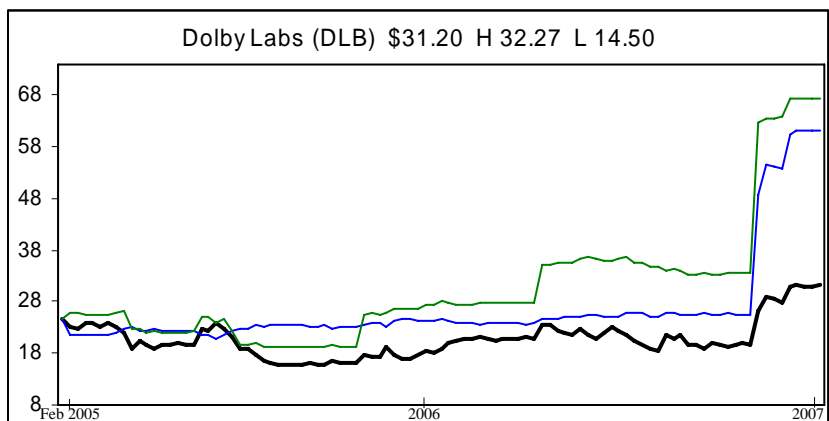
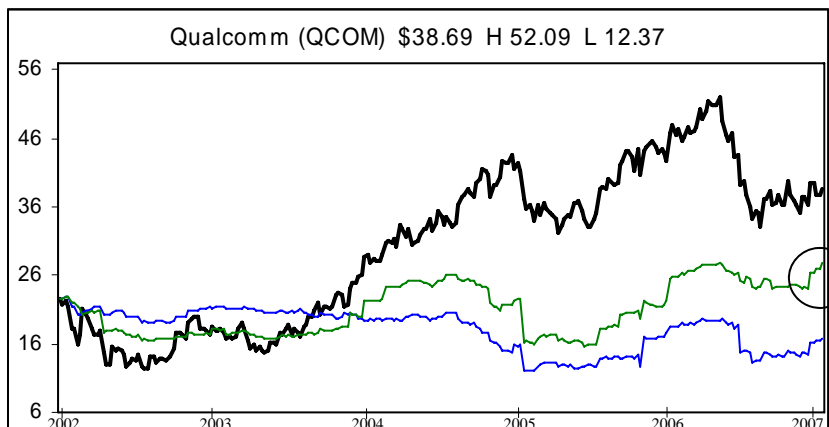
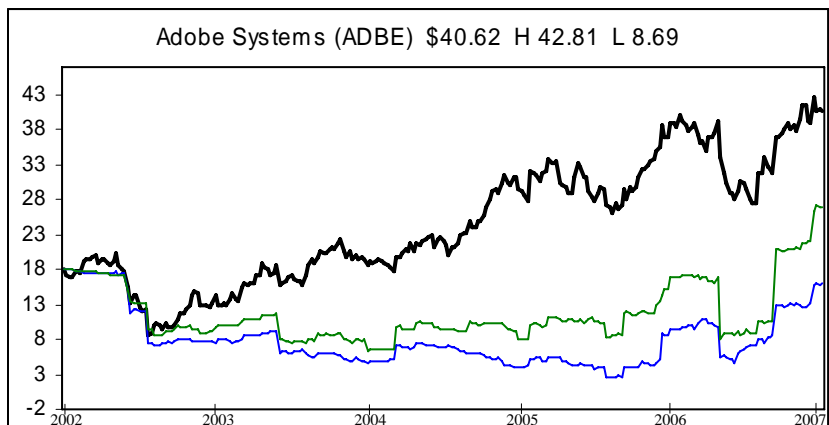
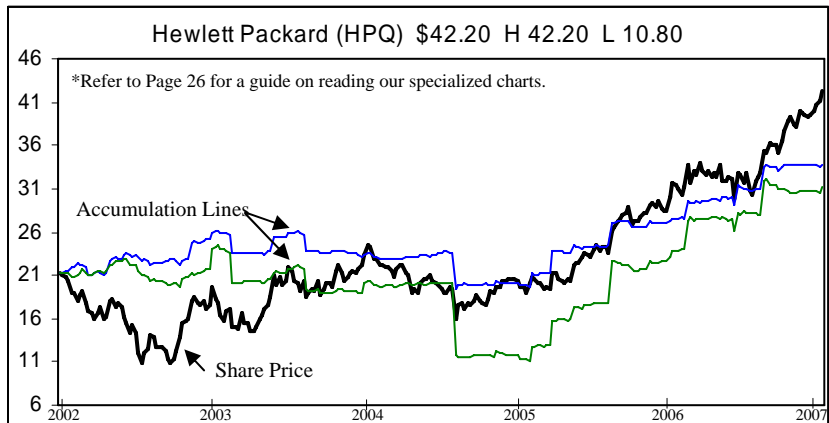
In our individual analysis this month, shares of **Hewlett Packard** continue on a roll that began in early 2005. Though our thesis of undervaluation appears to have run its course, H-P is hitting on all cylinders restoring growth and cash flow.

Adobe Systems shares moderated at the end of December as a security flaw was discovered in the ubiquitous Adobe Reader. However, we think the acquisition of rival Macromedia is a compelling factor to own these shares for the long haul as Adobe is now the undisputed leader in desktop publishing.

We are waiting for **Qualcomm** to make its turn as the stock remains under siege in the courtroom. Encouraging however is the recent notch upward in accumulation which indicates that institutional investors are beginning to show some interest at these depressed prices.

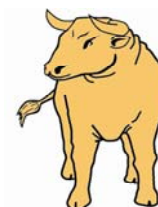
Shares of digital sound leader **Dolby Labs** burst forward again in December after a breakout fourth quarter. Dolby is riding on a wave of worldwide HDTV adoption and earnings have risen sharply over the past two quarters.

Elsewhere, the deflation of commodity prices is having an impact on **Occidental Petroleum** and **Reliance Steel** though we still like both.



Golden Bulls: Small-Cap Growth

California Small-Cap \$100,000 Growth Portfolio



Symbol	Company	Close Jan. 5	Monthly Change	Shares Bought	Purchase Price	Current Value	Gain/Loss	Business
ACME	ACME Comm.	\$5.15	\$0.00	973	\$5.14	\$5,010.95	\$9.73	<i>Owns 7 TV Stations</i>
AHS	AMN Healthcare	\$26.54	(\$0.67)	249	\$20.11	\$6,608.46	\$1,601.07	<i>Traveling Nurses</i>
ARNA	Arena Pharm.	\$12.79	(\$0.26)	461	\$10.85	\$5,896.19	\$894.34	<i>Biotechnology</i>
BDOG	Big Dog Holdings	\$15.87	\$0.87	568	\$8.80	\$9,014.16	\$4,015.76	<i>Retail: Walking Company</i>
CALD	Callidus Software	\$6.17	(\$0.60)	741	\$6.75	\$4,571.97	(\$429.78)	<i>Software: Incentive Mgt.</i>
CHIC	Charlotte Russe	\$30.44	\$0.11	263	\$19.01	\$8,005.72	\$3,006.09	<i>Retail: Apparel</i>
CPKI	California Pizza	\$33.48	\$2.00	183	\$27.31	\$6,126.84	\$1,129.11	<i>Restaurant</i>
ENWV	Endwave	\$11.60	(\$1.61)	347	\$14.42	\$4,025.20	(\$978.54)	<i>RF Modules</i>
FCSE	Focus Enhancements	\$1.56	\$0.10	4587	\$1.09	\$7,155.72	\$2,155.89	<i>Wireless Video Conversn.</i>
IOM	Iomega	\$3.59	(\$0.19)	1393	\$3.59	\$5,000.87	\$0.00	<i>Storage Disk Drives</i>
KANA	KANA Software	\$3.17	(\$0.02)	1859	\$2.69	\$5,893.03	\$892.32	<i>Software: Customer Svc.</i>
LDIS	Leadis Technology	\$5.01	\$0.66	804	\$6.22	\$4,028.04	(\$972.84)	<i>Semi: Color Display</i>
LTC	LTC Properties	\$27.17	\$0.17	219	\$22.81	\$5,950.23	\$954.84	<i>REIT: Healthcare Prpty.</i>
NDN	99 Cents Only Stores	\$12.51	\$1.81	420	\$11.91	\$5,254.20	\$252.00	<i>Retail: Discount Chain</i>
NUVA	NuVasive	\$22.17	(\$1.86)	265	\$18.89	\$5,875.05	\$869.20	<i>Spinal Medical Devices</i>
OPLK	Oplink Comm.	\$19.90	\$0.13	251	\$19.93	\$4,994.90	(\$7.53)	<i>Optical Networking</i>
PEIX	Pacific Ethanol	\$14.22	(\$4.34)	148	\$33.85	\$2,104.56	(\$2,905.24)	<i>Ethanol Production</i>
PSMT	PriceSmart	\$18.14	\$1.03	540	\$9.26	\$9,795.60	\$4,795.20	<i>Retail: Intl. Warehouse</i>
PSTA	Monterey Gourmet	\$4.23	\$0.07	719	\$6.95	\$3,041.37	(\$1,955.68)	<i>Food</i>
SMOD	Smart Modular Tech.	\$12.89	\$0.86	517	\$9.67	\$6,664.13	\$1,664.74	<i>OEM: Memory, LCD</i>
STAA	STAAR Surgical	\$6.94	(\$0.06)	578	\$8.65	\$4,011.32	(\$988.38)	<i>Medical Devices: Eye</i>
TCBK	TriCo Bancshares	\$26.69	\$0.29	180	\$27.81	\$4,804.20	(\$201.60)	<i>Regional Bank</i>
WIND	Wind River Systems	\$10.17	(\$0.43)	462	\$10.83	\$4,698.54	(\$304.92)	<i>Operating Systems</i>
*Based on Initial Position Investment of \$5,000. Portfolio Inception: 12/1/2005						Total:	\$13,495.78	
NASDAQ Return from December 1, 2005: +7.4%				Overall Portfolio Return:		\$11,036.58	+11.0%	

GOLDEN BULLS: SMALL-CAP GROWTH

Small cap stocks were mixed in December with the portfolio hurt by **NuVasive**, **Endwave** and a further plunge in the shares of **Pacific Ethanol**. Despite these individual pullbacks, the portfolio continues to perform favorably against its Nasdaq benchmark.

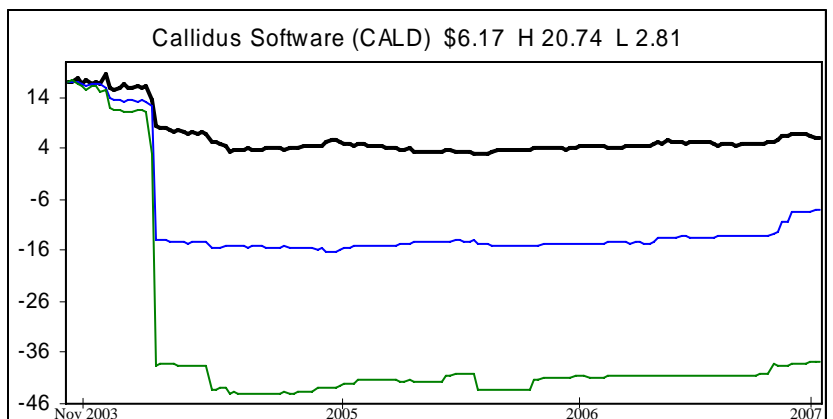
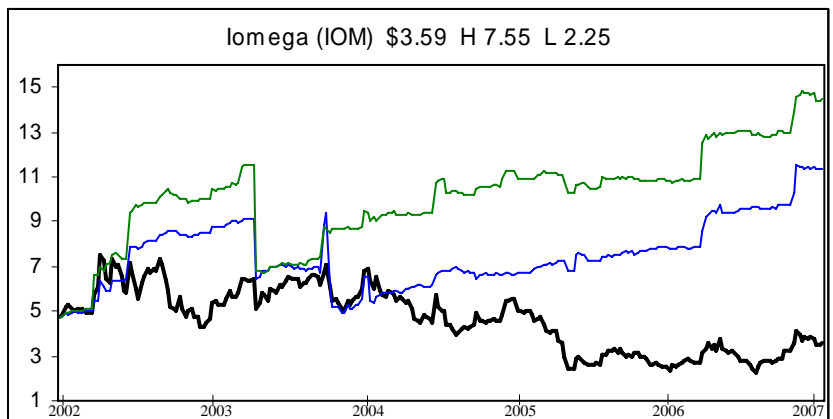
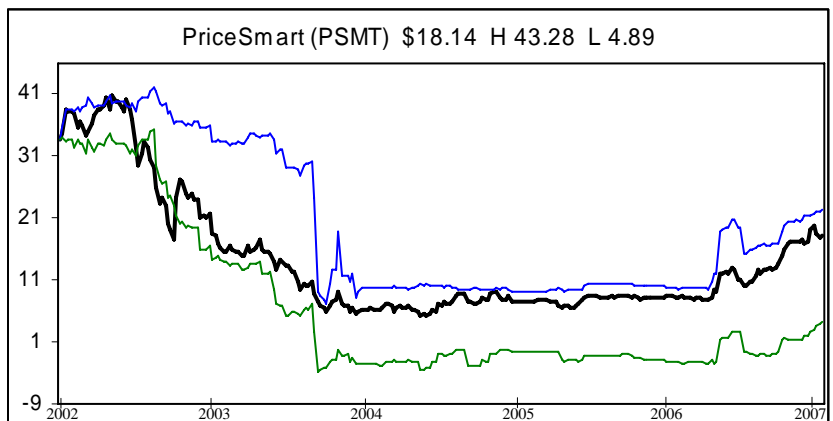
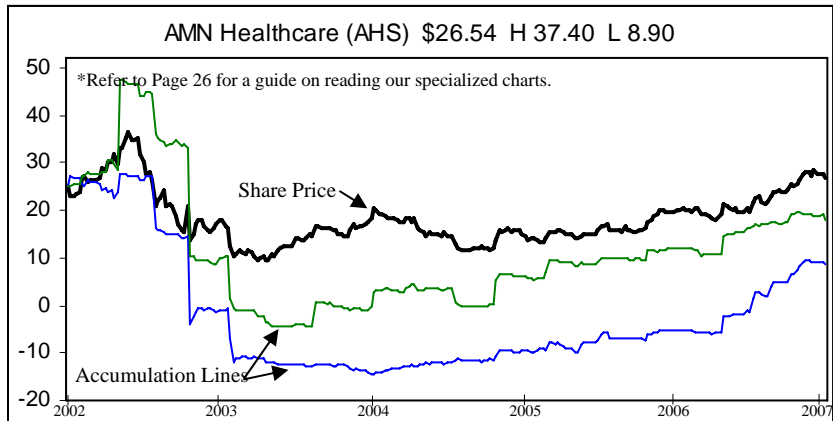
There are no changes to the portfolio this month.

In analysis, we expect a minor pullback in the shares of **AMN Healthcare** after a strong run. The accumulation trend shows faint signs of institutional selling that could moderate these shares ahead of fourth quarter earnings in February. The medical staffing industry is experiencing increasing demand as hospitals scramble to fill staff positions, particularly in nursing.

PriceSmart has been a strong performer as a vast improvement in its merchandising and effective cost controls have propelled revenue and earnings. As we head to print, PriceSmart reported another strong quarter that included solid December sales. However, the company also announced that the Price Family has registered to sell 15.2 million shares, representing more than 50% of the total outstanding. Though this will lead to a major overhang on the stock, we are maintaining our position and would buy on any weakness under \$15. We believe current operational strength and the positive longer-term impact of an increased public float outweigh short-term negatives.

Iomega remains a favorite heading into fourth quarter earnings in early February. We believe Q4 EPS will surpass estimates by a significant degree as recent expense controls meet with seasonal strength. The longer-term challenge will be replacing its high margin Zip business which is expected to decline in revenue by a further \$15 million in 2007.

We are growing more enthusiastic on **Callidus Software** which narrowly missed being our January feature stock. The maker of software used in calibrating employee incentives and bonuses recently forecast strong revenue for its upcoming fourth quarter.



California's Golden Bears

California Stocks To Avoid



Rating (page 8)	Symbol	Company	Close Jan. 5	Monthly Change	Business
3.4	ALDA	Aldila	\$15.07	-	Graphite Golf Shafts
3.7	CENX	Century Aluminum	\$42.04	-	Aluminum
3.7	CYN	City National	\$70.11	-	Regional Bank
3.2	DEIX	Directed Electronics	\$10.65	-	Auto Security Systems
3.2	DSL	Downey Financial	\$70.18	-	Savings & Loan
3.3	EBAY	eBay	\$30.78	-	Internet Commerce
3.9	FOXH	Foxhollow Technologies	\$20.49	-	Medical: Artery Disease
3.4	IVGN	Invitrogen	\$56.70	-	Biotechnology Tools
2.9	KOMG	Komag	\$36.14	-	Disk Drive Media
3.9	LF	LeapFrog Ent.	\$9.34	-	Learning Products, Toys
3.3	MFLX	Multi-Fineline Electronix	\$19.33	-	Telecom: Printed Circuit Boards
3.7	MNI	McClatchy	\$40.97	-	Publishing: Newspapers
3.8	MOH	Molina Healthcare	\$33.15	-	Managed Health Care
3.4	NFLX	Netflix	\$24.81	-	Internet Movie Rental
3.2	NVDA	Nvidia	\$33.66	-	Semiconductors: Video Games
3.9	REDE	RedEnvelope	\$7.04	-	Internet Retail
3.7	SPF	Standard Pacific	\$24.70	-	Homebuilding: Southwest
3.7	STMP	Stamps.com	\$14.77	-	Internet Postage Stamps

CALIFORNIA'S GOLDEN BEARS

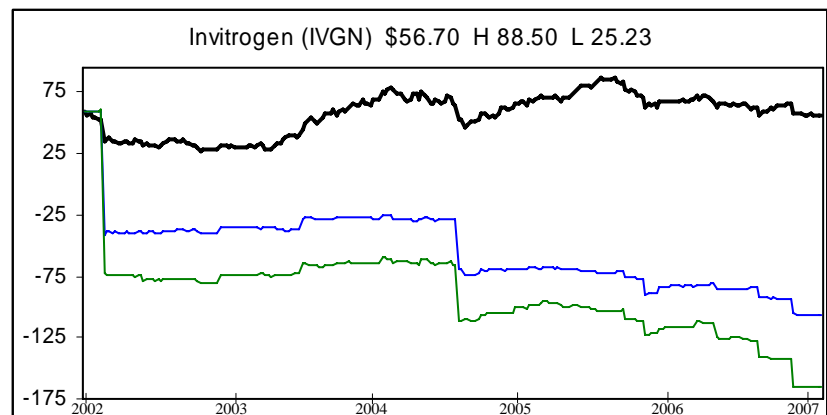
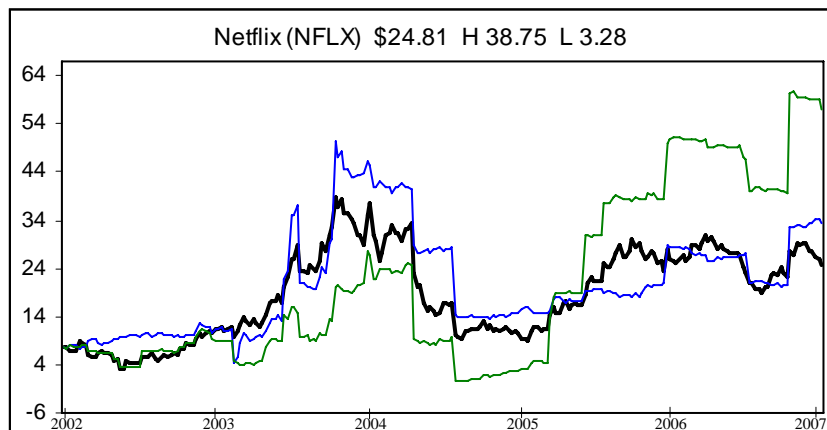
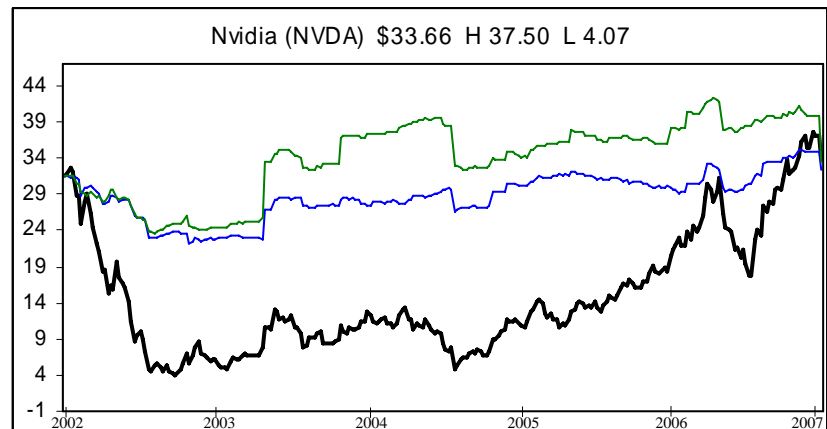
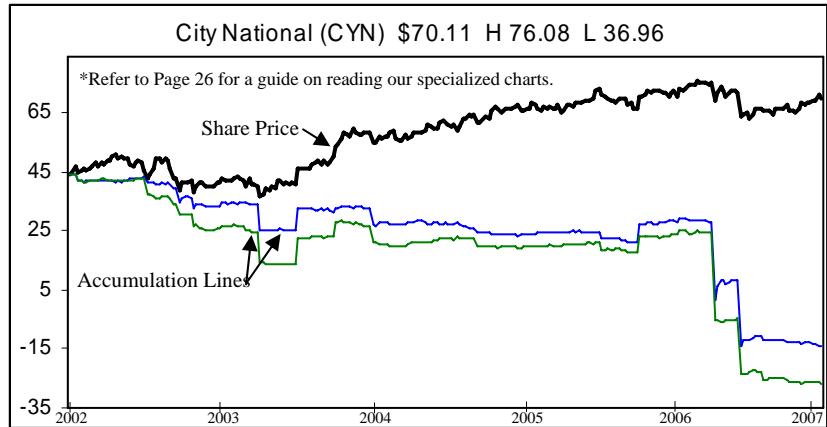
The California Golden Bears portfolio features its inauguration this month with a blend of interest-rate sensitive stocks and several companies that we see as overvalued and/or experiencing strong institutional selling.

A quick rundown of the companies includes **Aldila**, a management team we like battling a forbidding environment in the golf business. **Century Aluminum** is seeing heavy selling in a deflating metals market. **Directed Electronics** recently reported a big slowdown in installations of Sirius satellite radios and institutions are selling. Savings & Loan and exotic loan specialist **Downey** is seeing a spike in non-performing loans. Competitive pressures and a recent price bounce are negatives for **eBay**.

Elsewhere, medical device maker **Foxhollow** is sharply reducing its forecasts. We think **Komag**, a leading provider of thin film to the disk storage industry, has run its course operationally. **LeapFrog** reports one earnings bomb after another with its much heralded Fly pentop computer underperforming. We think the market is expecting a big earnings miss at **Multi-Fineline**. And **McClatchy** may have taken on too much in a tough newspaper market with its purchase of **Knight Ridder** and the *San Jose Mercury*.

Finally, managed healthcare provider **Molina** faces a tough reimbursement environment. Wall Street appears to be running out of patience with **Red Envelope** as competition in Internet retailing intensifies. **Standard Pacific's** large concentration of business in key overheated Southwestern markets makes its among the riskiest of builders. And **Stamps.com** appears to have entered the competitive crosshairs of giant Pitney Bowes.

Heavy institutional selling has led **City National** and **Invitrogen** to join our Golden Bears portfolio. Overpriced **Nvidia** is seeing increasing signs of institutional selling. Blockbuster's bold new initiative will likely force **Netflix** into lower prices just as new competitors such as CinemaNow, a leading Internet provider of downloadable videos, hits the market.



INITIAL PUBLIC OFFERINGS REVIEW

Recent IPO Performance

Rating	Ticker	Company	Current Price	IPO Price	IPO Date	Performance
2.8	ARTE	Artes Medical	\$8.00	\$6.00	12/21/06	33.3%
3.1	AFFY	Affymax	\$33.97	\$25.00	12/15/06	35.9%
3.0	OMPI	Obagi Medical	\$10.10	\$11.00	12/14/06	-8.2%
3.0	GUID	Guidance Software	\$14.65	\$11.50	12/13/06	27.4%
3.6	NLST	Netlist	\$9.39	\$7.50	11/30/06	25.2%
2.7	HNSN	Hansen Medical	\$13.45	\$12.00	11/16/06	12.1%
2.7	FACE	Physicians Formula	\$18.77	\$17.00	11/9/06	10.4%
2.8	CADX	Cadence Pharm.	\$12.34	\$9.00	10/27/06	37.1%
2.4	DEI	Douglas Emmett	\$25.70	\$21.00	10/25/06	22.4%
2.9	EHTH	eHealth	\$20.80	\$14.00	10/20/06	48.6%
2.7	SAI	SAIC	\$17.55	\$17.00	10/17/06	3.2%
2.7	BBEP	BreitBurn Energy	\$23.79	\$18.50	10/5/06	28.6%
2.4	BARE	Bare Escentuals	\$32.86	\$22.00	9/29/06	49.4%
3.0	SFLY	Shutterfly	\$14.65	\$15.00	9/29/06	-2.3%
2.1	DIVX	DivX	\$23.97	\$16.00	9/25/06	49.8%
2.4	RVBD	Riverbed Tech.	\$31.03	\$9.75	9/21/06	218.3%

California IPO News

The IPO market in California remains hot as a steady pace of filings fueled a torrid flow of new offerings in the fourth quarter.

Among recent IPO filings, **Omneon Video** is a profitable, high quality issue providing digital content storage and playback processing for media companies such as British Broadcasting and Turner. **BigBand** is another quality offering of broadband services to cable operators facilitating video, voice and data.

Glu Mobile is a rapidly growing, highly unprofitable publisher of wireless video games for cell phones. These losses will likely be overlooked as investors search for the next Jamdat Mobile.

Finally, **Aruba Networks** is a filing that offers secure networking in a market led by Cisco. Aruba is a bit early stage with large losses but we expect the company to be a solid performer longer-term.

Riverbed Technology was the best performing IPO of 2006 on strong sales of its Steelhead line of wide area networking products.

USING OUR STOCK RATING SYSTEM

Our unique Ratings System is designed to provide an easy to read "window" on a company's standing in the marketplace. Each company is individually rated "1" through "5" according to LSI (a proprietary institutional accumulation/distribution measure), EPS (operational growth) and Valuation. These individual ratings are averaged on a weighted basis to produce an "Overall Rating" whereby: 1.0-Highest (most timely stock), 3.0-Neutral, 5.0-Lowest (underperform). LSI is weighted heaviest and Valuation is weighted lowest in the Overall Rating. These figures may show a slight variation according to industry group and other lesser metrics.

RATINGS SUMMARY

LSI -1: Stocks showing the highest level of accumulation based on our proprietary charts (multiple and consistent upward notches, particularly near-term), 2: Positive accumulation trend, 3: Neutral, choppy trend, 4: Negative activity/institutional distribution, 5: Multiple large downward distribution notches on the chart.

EPS-A range of 0 (positive) to 1 (negative) is assigned to the following financial measures: Revenue history (three years), EPS history (three years), Analyst Estimates: a) Meeting estimates (0-1), b) beating and raising estimates (0-1) and results for the latest quarter. These are added together for the overall EPS rating.

Valuation-A PE range is calculated for each year over the past four years and divided into five percentile brackets. The valuation is based on the range in which the PE falls with some adjustment for market conditions. "1" for lowest percentile bracket of PE range, "5" for the highest.

EXAMPLE

Hewlett-Packard-overall rating of 1.3 (March 2006): LSI of "1" based on very strong LSI pattern, EPS of "1" due to the fact that the company is consistently beating estimates and raising guidance, had a strong recent quarter and a good history of revenue and EPS growth, Valuation of 4 as its PE is in the second highest percentile range.

INITIAL PUBLIC OFFERINGS REVIEW

Recent IPO Filings						
Proposed Ticker	Company	Filing Date	Rating (1-5)	Offering Size (\$mil)	Business	Region/HQ
OMNE	>Omneon Video Net.	12/29/2006	2	\$115.0	Digital TV Solutions	SV-Sunnyvale
BBND	>BigBand Networks	12/22/2006	2	\$140.0	Broadband TV Networking	SF-Redwood City
RGDX	>Response Genetics	12/20/2006	3	\$28.2	Cancer Diagnostics	LA-Los Angeles
GLUU	>Glu Mobile	12/19/2006	3	\$92.0	Wireless Videogames	SF-San Mateo
OREX	>Orexigen Therapeutics	12/19/2006	4	\$86.3	Biotechnology-Obesity	SD-San Diego
ARUN	>Aruba Networks	12/15/2006	3	\$100.0	Wireless LANs	SV-Sunnyvale
ARAY	Accuray Intl.	11/13/2006	3	\$230.0	Medical: Radiosurgery	SV-Sunnyvale
OPTR	Optimer Pharm.	11/9/2006	4	\$86.3	Biotechnology	SD-San Diego
SMCI	Super Micro Computer	11/2/2006	1	\$150.0	Computer equipment	SV-San Jose
PRTS	U.S. Auto Parts Network	11/2/2006	3	\$100.0	Retail: Internet auto parts	LA-Carson
VRAZ	Veraz Networks	10/20/2006	3	\$115.0	Computer networking	SV-San Jose
SKH	SHG Holdings Solutions	10/10/2006	2	\$175.0	Assisted-living facilities	LA-Foothill Ranch
MLNX	Mellanox Technologies	9/28/2006	2	\$86.3	Networking chips	SV-Santa Clara
AVAV	AeroVironment	9/28/2006	3	\$115.0	Unmanned aircraft	LA-Monrovia
SFMT	St. Francis Medical	9/21/2006	2	\$86.3	Medical devices: spinal	SV-Alameda
MMDX	Meruelo Maddux Prop.	9/19/2006	2	\$500.0	Real estate development	LA-Los Angeles
CLNE	Clean Energy Fuels	9/6/2006	3	\$287.5	Natural gas fuel stations	LA-Seal Beach
PHYS	Physicians Formula	8/25/2006	2	\$115.0	Mass market cosmetics	LA-Azusa
GENU	GenuTec Business Sols.	8/14/2006	3	\$25.0	Advertising: voice msg.	LA-Laguna Niguel
XTNT	Xtent	8/7/2006	3	\$103.5	Medical-coated stents	SF-Menlo Park
AZMA	Asthmatx	7/24/2006	4	\$74.8	Medical device-asthma	SV-Mountain View
OCLS	Oculus Innovative Sci.	7/3/2006	4	\$80.5	Proprietary disinfectant	SF-Petaluma
OTIS	Otis Spunkmeyer	6/20/2006	2/3	\$230.0	Bakery products	SF-San Leandro
SENO	SenoRx	5/25/2006	4	\$86.3	Medical devices: breast	LA-Aliso Viejo
MTRO	InterMetro Comm.	5/11/2006	4	\$23.0	Telecom: VOIP	LA-Simi Valley
LOCO	El Pollo Loco	5/8/2006	3	\$135.0	Restaurants: fast/casual	LA-Irvine
ICEY	Alsius	4/26/2006	4	\$40.3	Medical devices: surgery	LA-Irvine
RFID	Alien Technology	4/13/2006	3	\$138.0	RFID tags	SV-Morgan Hill
PERL	Perlegen Sciences	4/10/2006	2/3	\$115.0	Biotech: genome markers	SV-Mountain View
BIDZ	Bidz.com	3/17/2006	2	\$57.5	Internet jewelry retailer	LA-Culver City

JANUARY STOCK SELECTION

Affymetrix, Inc.

RECOMMENDATION

Our January stock selection is Affymetrix, maker of the GeneChip platform used in the analysis of genetic information by medical companies and the academic community.

We believe that a new product launch this month and the company's recent restructuring will generate a significant rebound in profitability and share price in 2007. We view recent price weakness in the stock as a strong opportunity for aggressive growth investors to take positions in Affymetrix ahead of fourth quarter earnings on February 7.

OPPORTUNITY

Research of the human genome has grown dramatically over the past decade driven by major initiatives such as the Human Genome Project. The unlocking of the human genome is theorized to potentially hold the key to custom tailored drugs that are specific to each individual. As a result, spending on genome research has risen exponentially over the past several years opening a new market for genetic analysis products and services.

Affymetrix has risen to prominence in this market following development of its GeneChip technology. GeneChip leverages photolithographic

Affymetrix (NDQ-AFFX)

Share Price	\$24.48	Market Cap (Mil)	\$1,645.1
52-Week High	\$43.95	Total Assets (Mil)	\$763.4
52-Week Low	\$17.50	Net Worth (Mil)	\$530.8
Dividend	-	Book Value/Share	\$7.90
Dividend Yield	-	Long-Term Debt (Mil)	\$120.0
PE Ratio	-	Cash & Equiv. (Mil)	\$245.5
Average Volume	1,250,000	Enterprise Value (Mil)	\$1,550.0
Shares Outstanding (Mil)	67.2	EBITDA (Yr., Mil)	\$56.6
Short Interest	23.6%	Op. Cash Flow	\$34.3
Insider Ownership	1%	Fiscal Year End	Dec. 31
Institutional Ownership	90%	Website:	www. affymetrix.com

3420 Central Expressway, Santa Clara, CA 95051, (408) 731-5000

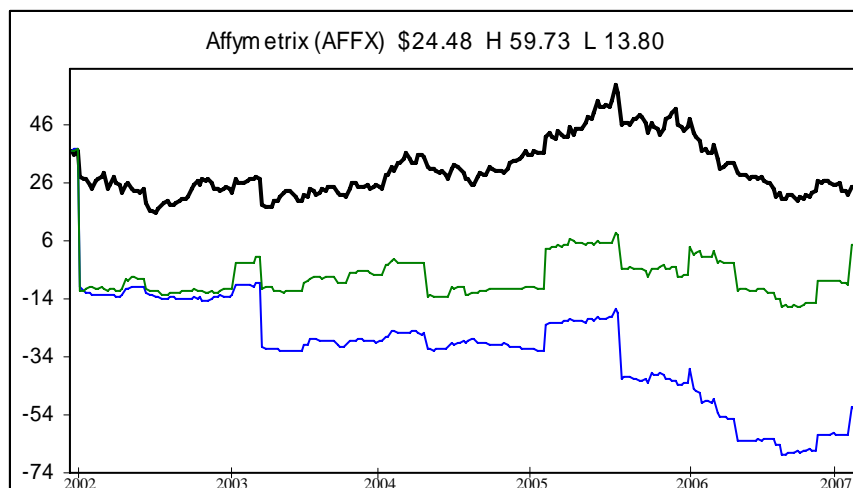
fabrication technology from the semiconductor industry for the synthesis of a significant variety of DNA sequences used in research. Affymetrix is now a leader in DNA variation detection.

Despite its early success, the past year and a half have been largely forgettable for Affymetrix. Sales volumes of its genotyping sets have decreased forcing the company into an unpopular decision (on Wall Street at least) to cut the price of its flagship

500K SNP dual-chip genotyping consumables by 50% to stimulate demand. As a result, Affymetrix shares have plummeted and the short position in the stock has risen to a toxic 24%. The recent resignation of the company's CFO to a smaller company also led to wild rumors of impending doom.

We believe there is a strong opportunity for investors in Affymetrix shares. While prices have been lowered for its existing 500K SNP product, the company will begin shipping in volume in January a new single-chip iteration of the 500K SNP product line having twice the throughput at twice the price. Management expects this product and the opening of a new manufacturing facility in Singapore to have a significantly positive impact on 2007 gross margins.

Just as we head to print, the company projected \$100 million in upcoming Q4 revenue, ahead of estimates of \$97.9 million. We believe the new product launch coupled with sizable recent institutional buying and a depressed share price has created a timely opportunity in Affymetrix shares.



JANUARY STOCK SELECTION-Page 2

THIRD QUARTER RESULTS

Affymetrix seemed to soothe investor fears during the third quarter citing a rebound in its array and services segment on strong growth in genotyping revenue. The company also saw a large bump upward in licensing revenue from several agreements signed in 2006.

Management reported that although gross margins dove to 56.2% in Q3 versus 70.6% last year, the third quarter should represent the low water mark as its price cut and a restructuring accounted for 12 points of the decrease.

GUIDANCE & EXPECTATIONS

Management sees gross margins rebounding in its seasonally strong fourth quarter and expects a further sizable jump in Q1 of 2007 on the launch of the new single-chip 500K SNP. As such, we believe fourth quarter earnings will top the consensus \$0.05 estimate on February 7 as enthusiasm for the new product builds in the market.

BUSINESS*

Affymetrix develops, manufactures, sells and services consumables and systems for genetic analysis in the life sciences and clinical healthcare.

The company's product line features its core GeneChip microarray platform that includes: disposable DNA probe arrays (chips) consisting of patterned nucleic acid sequences, reagents for use with the probe arrays, a scanner and other instruments used to process the probe arrays, and software to analyze and manage genomic or genetic information obtained from the probe arrays. GeneChip technology is marketed to customers based on two main applications: gene expression monitoring and DNA variation detection.

Related microarray technology also includes licenses for fabricating, scanning, collecting and analyzing results from complementary technologies.

Customers of Affymetrix products include pharmaceutical, biotechnology, agricultural, diagnostics and consumer products companies as well as academic research centers and government labs.

*Adapted from Affymetrix filing on Form 10-K

Revenue Growth (\$000)						
	2004	Change	2005	Change	2006	Change
Q1	78,633	18%	88,615	13%	86,391	-3%
Q2	79,754	16%	84,051	5%	80,066	-5%
Q3	79,867	5%	83,447	4%	84,672	1%
Q4	107,708	21%	111,489	4%		
Year	345,962	15%	367,602	6%		
EPS Growth						
	2004	Change	2005	Change	2006	Change
Q1	(0.03)	-	0.24	-	0.03	-88%
Q2	0.11	22%	0.12	9%	(0.15)	
Q3	0.25	150%	0.13	-48%	(0.06)	
Q4	0.41	58%	0.30	-27%		
Year	0.74	222%	0.79	7%		
Recent EPS Performance						
Quarter	Actual	Estimate	Difference			
Sept '06	(0.06)	(0.07)	+0.01			
Jun '06	(0.15)	(0.01)	(0.14)			
Mar '06	0.03	0.04	(0.01)			
Dec '05	0.30	0.29	+0.01			
Sept '05	0.13	0.11	+0.02			
Jun '05	0.12	0.17	(0.05)			
Analyst Consensus Estimate Trends						
Period	Current Estimate	Dec.	Nov.	Oct.	Dec. 2005	
4Q06	0.05	0.04	0.04	0.04	0.34	
1Q07	0.02	0.02	0.02	0.02	0.26	
FY06	(0.15)	(0.15)	(0.15)	(0.15)	0.83	
FY07	0.30	0.30	0.30	0.30	1.11	



California Stock Review

Monthly Review of California Stocks

December's Top Winners					
Rating	Ticker	Company	Close	\$ Gain	%
2.6	HTI	Halozyme Therapeutics	\$7.65	+4.80	168.4%
3.1	PTSX	Point.360	\$3.83	+2.02	111.6%
-	RBAK	Redback Networks	\$24.78	+10.26	70.7%
2.8	INSW	InsWeb	\$3.65	+1.19	48.4%
2.4	ADST	AdStar	\$2.32	+0.72	45.0%
-	ECHO	Electronic Clearing	\$18.44	+5.47	42.2%
2.4	ITMN	InterMune	\$30.17	+8.89	41.8%
2.1	IFON	InfoSonics	\$5.49	+1.52	38.3%
2.7	STEC	Simpletech	\$11.96	+3.18	36.2%
2.3	IRIS	IRIS International	\$12.53	+3.26	35.2%
December's Top Losers					
Rating	Ticker	Company	Close	\$ Loss	%
2.9	NUVO	Nuvelo	\$3.85	(15.32)	-79.9%
3.1	TELK	Telik	\$4.48	(12.46)	-73.6%
3.2	ONXX	Onyx Pharmaceuticals	\$11.45	(6.05)	-34.6%
3.3	CERS	Cerus	\$5.39	(2.08)	-27.8%
3.7	PRLS	Peerless Systems	\$2.65	(0.93)	-26.0%
3.2	DEIX	Directed Electronics	\$10.65	(3.54)	-24.9%
3.3	PEIX	Pacific Ethanol	\$14.22	(4.34)	-23.4%
3.9	FOXH	Foxhollow Technologies	\$20.49	(5.17)	-20.1%
3.9	BPOM	BPO Management	\$2.77	(0.68)	-19.7%
3.3	CRDC	Cardica	\$4.40	(1.08)	-19.7%

California Stocks

After hitting a new high in December, California stocks have run into a bit of a headwind ahead of fourth quarter earnings. The California Stock Index fell less than one point for the month after hitting a new high of 2,314.27 on December 15.

Recent fear that the Fed will not be inclined to lower interest rates in the first half of 2007, as was coming to be expected, led investors to pour out of rate sensitive stocks in late December. With fourth quarter earnings due this week, California investors will see a volatile January.

Among December's winners, San Diego-based **Halozyme Therapeutics** showed that not all is doom and gloom in biotechnology, jumping 168% for the month. The company signed a blockbuster deal with Roche worth up to \$581 million to apply its Enhance drug dispersion technology for use in certain Roche drugs. Enhance works to open flow channels under the skin to more effectively penetrate and disperse injectable drugs.

The latest news to rock Silicon Valley was the \$1.9 billion purchase of **Redback Networks** by Ericsson. The move is expected to thrust Ericsson directly into the backyard of **Cisco** and **Juniper** in the market for Internet TV and telephony.

Intuit, fresh on the heels of its acquisition of **Digital Insight**, snapped up **Electronic Clearinghouse** for \$142 million. ECHO was hurt in October after a new Federal law prohibited the company from processing electronic payments of online gambling sites.

CALIFORNIA STOCK REVIEW

Tiny mobile phone maker **InfoSonics** is beginning to heat up again, up 38% for the month (see page 15).

Finally, the turnaround at **IRIS** looks to be hitting stride as the company received its largest order to-date. The company will sell 17 of its iQ200 microscopy and urine analyzers to provide automated urinalysis and body fluids testing at a major national hospital. IRIS also signed a recent deal with LabCorp.

Among the top dollar gainers in December, biotech **InterMune** is featured on page 21, and **Kyphon** surged on word that it will acquire St. Francis, maker of the first FDA approved device to treat lumbar spinal stenosis, a degenerative spinal disease.

Top losers this month included two biotechs that each lost more than 70% of their value on failed clinicals.

Shares of former darling **Nuvelo** bombed on failure of its well regarded Alfimeprase treatment for blood clots. And shares of **Telik** plummeted after its drug failed to reach an endpoint in the treatment of lung cancer.

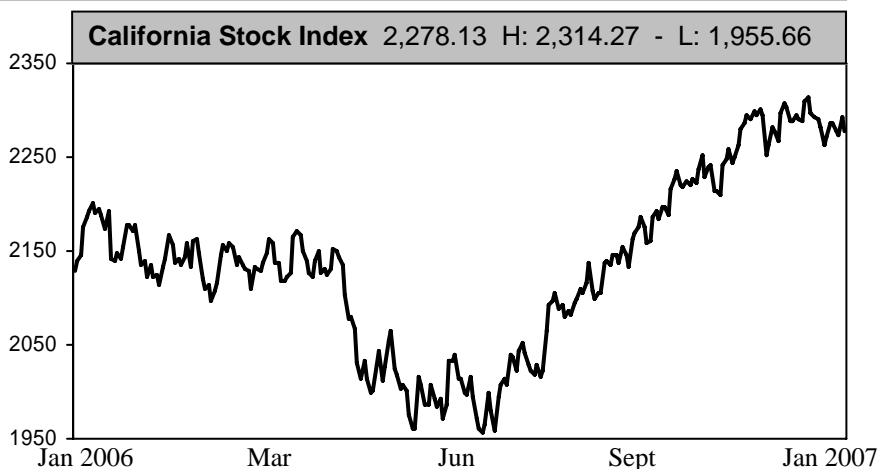
Onyx Pharmaceuticals is finding little respect from Wall Street despite its FDA approved kidney cancer drug Nexavar. Onyx lost a further 35% in December as Nexavar failed in Phase III trials as a treatment for skin cancer.

Cerus, maker of the Intercept Blood System to enhance the safety of donated blood cratered 28% on what appeared to be shorting ahead of a private stock sale.

Directed Electronics crashed after the installer of car audio systems reported that it experienced much softer demand for the installation of Sirius satellite radios.

Finally, **Pacific Ethanol** continues to take a sound thrashing in the market. Shares of the ethanol processing company are closely tied to the oil market as lower crude prices theoretically mean less impetus to go "green." The company's CFO mysteriously retired in mid-December worrying investors.

It is no wonder that mortgage originators are leading the list of highest yielding California stocks. The incredible 25% yield at **New Century**, though tempting, shows that Wall Street is betting on a major dividend cut ahead.



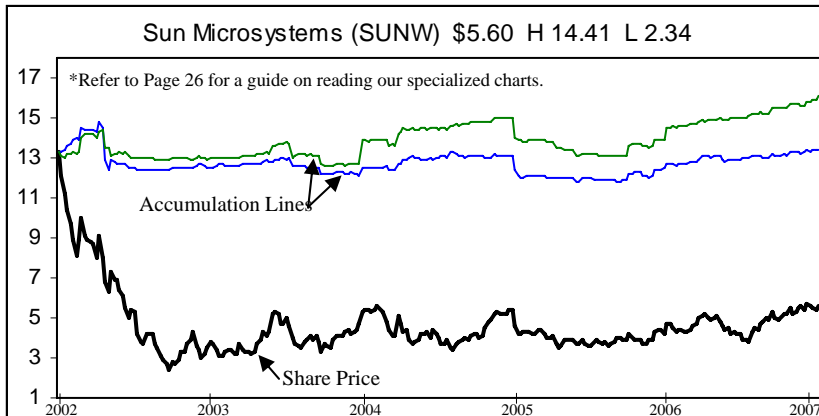
December's Top \$ Winners					
Rating	Ticker	Company	Close	\$ Gain	%
-	RBAK	Redback Networks	\$24.78	+10.26	70.7%
2.4	ITMN	InterMune	\$30.17	+8.89	41.8%
2.1	KYPH	Kyphon	\$40.85	+7.33	21.9%
2.2	BSTE	Biosite	\$55.06	+6.42	13.2%
2.2	GOOG	Google	\$487.19	+6.39	1.3%
2.6	HANS	Hansen Natural	\$34.28	+6.35	22.7%
2.6	SJW	SJW	\$40.84	+5.99	17.2%
2.3	TRMB	Trimble Navigation	\$53.63	+5.83	12.2%
3.4	CRVL	CorVel	\$43.48	+5.55	14.6%
2.1	CRDN	Ceradyne	\$58.63	+5.54	10.4%

California's Highest Yielding Stocks					
Yield	Div.	Ticker	Company	Close	Rating
25.0%	\$7.60	NEW	New Century Financial	\$30.40	3.6
13.2%	\$1.20	LUM	Luminent Mortgage	\$9.08	3.4
11.4%	\$1.00	IMH	IMPAC Mortgage	\$8.78	3.2
7.9%	\$2.08	KFN	KKR Financial	\$26.21	2.7
7.0%	\$3.00	CHKE	Cherokee	\$42.82	2.4
6.6%	\$0.50	BHBC	Beverly Hills Bancorp	\$7.57	2.8
5.6%	\$1.52	O	Realty Income	\$27.09	2.6
5.5%	\$1.50	LTC	LTC Properties	\$27.17	2.7
5.1%	\$1.56	NHP	Nationwide Health	\$30.36	2.7
5.0%	\$0.64	MSW	Mission West Properties	\$12.80	3.4

CALIFORNIA STOCKS TO WATCH

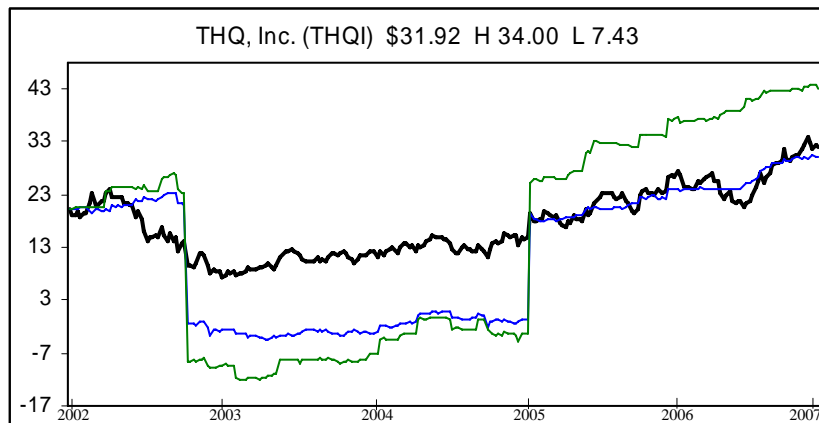
Sun Microsystems (Rating: 2.2)

Sun Microsystems was a close runner-up to our featured stock selection for January. We think the network server giant is making positive strides under new management in restoring profitability and improving operations. The company is undergoing a large restructuring of its sales force that could further enhance growth over the quarters ahead. We would look to be aggressive buyers of Sun shares at prices near \$5.



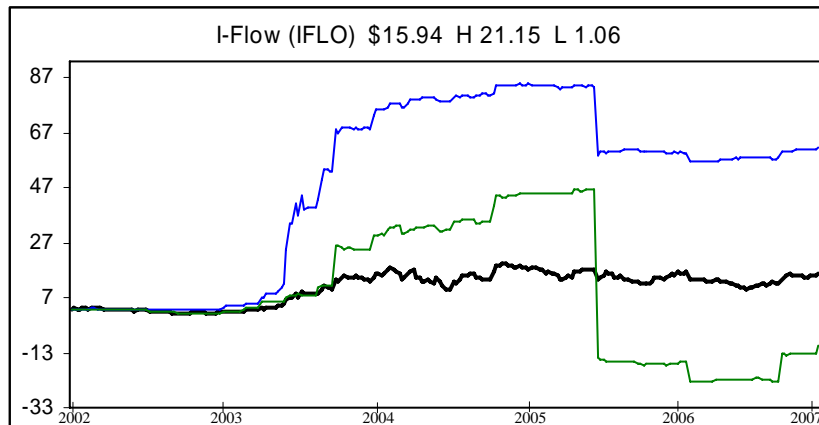
THQ, Inc. (Rating: 2.4)

THQ remains our favorite video game software maker with key partnerships to develop games based on Disney-Pixar, Nickelodeon and World Wrestling Entertainment movies and content. We think management shrewdly concentrated its recent game releases on the lower priced, hot selling Nintendo Wii console instead of the new Sony PlayStation 3. After a big second quarter report, we expect THQ to continue to outperform its peers Electronic Arts and Activision.



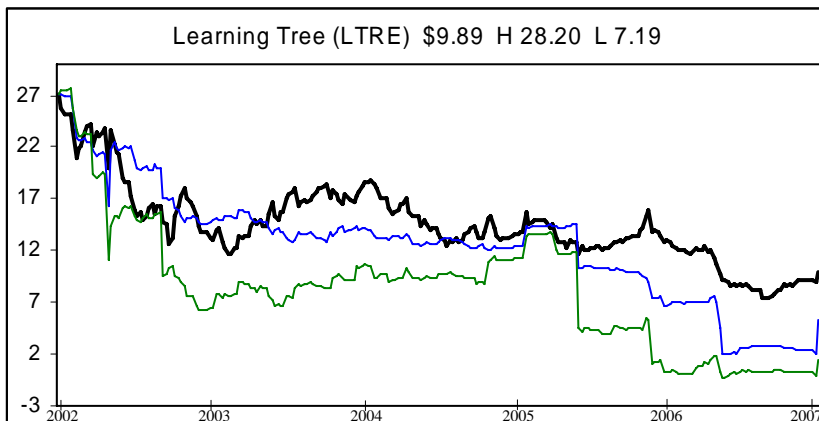
I-Flow (Rating: 2.3)

Shares of I-Flow are picking up steam after receiving Medicare coverage on January 1, 2007 for its ON-Q treatment for post-surgical pain. The company expects Medicare acceptance will positively influence private insurance companies in covering the product. The company has been somewhat inconsistent on the bottom line but we expect I-Flow to achieve its first full year of profitability in 2007. Accumulation has picked up recently although we are still a bit cautious.



Learning Tree (Rating: 2.3)

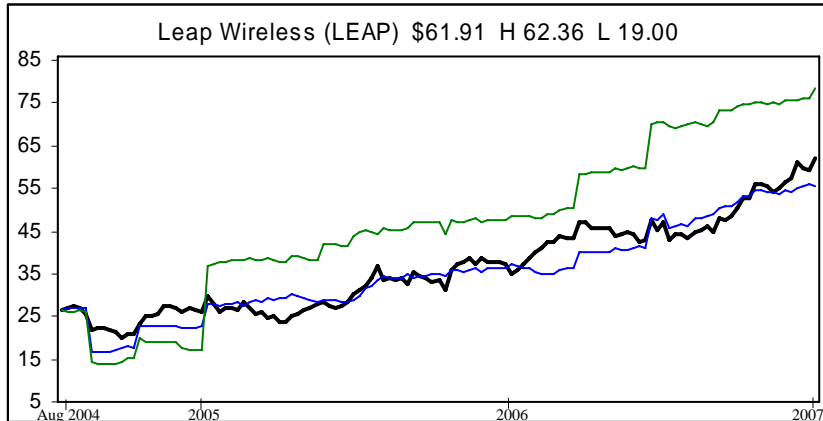
After a horrific plunge from north of \$70 in 2000, shares of Learning Tree may be poised for better times ahead. Investors jumped into the stock after the company preannounced expectations of a profitable fourth quarter, reversing a year earlier loss. The for-profit education company recently announced that it was relocating its headquarters to Reston, VA so after many years of anguish we must bid adieu.



CALIFORNIA STOCKS TO WATCH

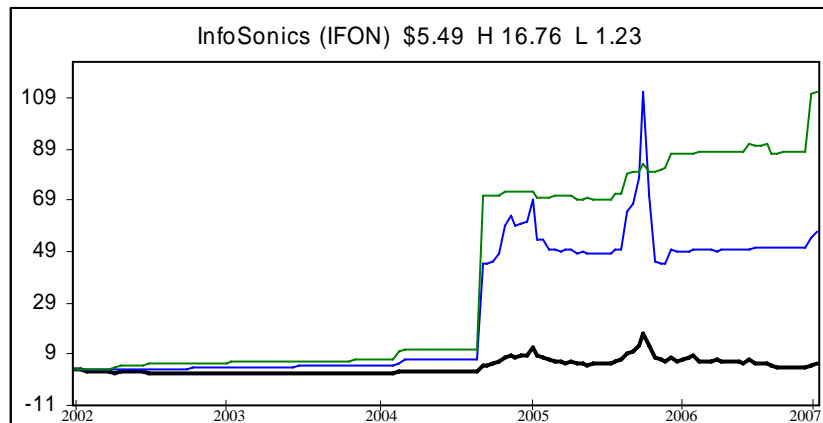
Leap Wireless (Rating: 2.1)

Shares of San Diego-based Leap Wireless have been moving sharply higher since late 2004. The company's prepaid Cricket and Jump wireless plans have met with strong acceptance in small to mid-size markets throughout the U.S. The company recently announced it had purchased spectrum licenses to enter 13 new markets in the Carolinas and that it would finally begin service in its home market of San Diego. Subscriber growth has been the compelling factor at Leap and Wall Street looks to be on board.



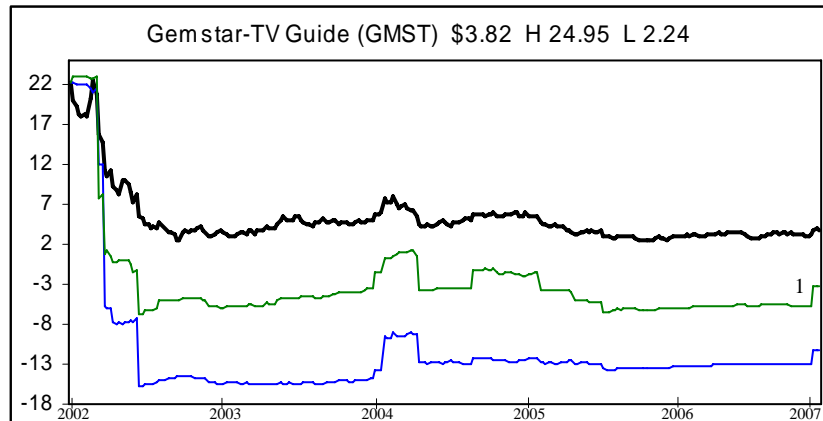
InfoSonic (Rating: 2.1)

The volatile ride of InfoSonic appears to be again shifting to the positive. The maker of mobile handsets released two noteworthy news items recently including a new agreement with LG Electronics to produce phones for markets in the Caribbean and certain countries in Latin America. This news was followed by word that InfoSonic had renewed its agreement with Samsung in South America. While the company has been very successful over the past year in growing revenue, inconsistency on the bottom line has dogged this stock and remains a risk. However, recent accumulation in the stock fuels our belief that a nice run may be in store.



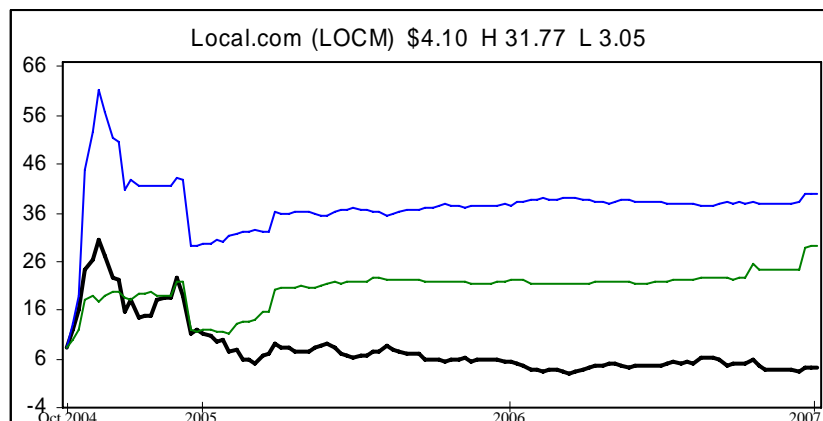
Gemstar-TV Guide (Rating: 2.6)

Gemstar-TV Guide makes its debut in *California Stock Report* this month as it appears the struggling former giant may be getting its affairs back in order. While its TV Guide publication has struggled under heavy pressure from cable TV information services, the TV Guide channel and interactive electronic program guides offered by the company are gaining acceptance highlighted by recent deals with British Sky Broadcasting and Philips. As third quarter results topped estimates, we would still consider this an early stage turnaround. Keep an eye on GMST.



Local.com (Rating: 2.8)

Briefly, Local.com operates a website devoted to providing information on local businesses and consumer topics. We notice that this microcap is beginning to find interest from bottom fishing investors.



California Technology Review

Ratings and Analysis of California-Based Technology Stocks

Top 25 California Technology Stocks				
Rating	Ticker	Company	Close	Business
1.9	CSCO	Cisco Systems	\$28.47	Computer Networking
1.9	MXIM	Maxim Integrated	\$31.31	Semiconductors
2.0	QLGC	QLogic	\$21.86	Storage Networking
2.0	HPQ	Hewlett-Packard	\$42.20	Printers, PCs
2.0	CNXT	Conexant Systems	\$2.11	Semiconductor: Broadband
2.1	AAPL	Apple, Inc	\$85.05	PCs, iPod
2.1	PLCM	Polycom	\$31.28	Videoconferencing
2.1	SMOD	Smart Modular Tech.	\$12.89	OEM: Memory, LCD
2.2	GOOG	Google	\$487.19	Internet Search
2.2	SUNW	Sun Microsystems	\$5.60	Computer Networking
2.2	TSRA	Tessera Technologies	\$40.20	Semiconductor Packaging
2.2	IOM	Iomega	\$3.59	Disk Drives
2.2	IVAC	Intevac	\$24.03	Electronic Prod. Equipment
2.2	UCTT	Ultra Clean Holdings	\$13.49	Semiconductor Equipment
2.2	IDTI	Integrated Device	\$15.51	Semiconductors
2.2	PSEM	Pericom Semi.	\$10.93	Semiconductors
2.3	SYNA	Synaptics	\$29.90	Device Interface Solutions
2.3	FORM	FormFactor	\$39.16	Semiconductor Test Prods
2.3	KLAC	KLA-Tencor	\$50.15	Semiconductor Equipment
2.3	MIPS	MIPS Technologies	\$8.56	Embedded Processors
2.3	NEWP	Newport	\$20.62	Lasers, Instruments
2.3	ATHR	Atheros Comm.	\$23.04	Wireless Comm. Products
2.3	CYBS	CyberSource	\$11.25	Software-Electronic Paymt.
2.3	PAY	VeriPhone Holdings	\$35.40	Electronic Payment System
2.3	TRMB	Trimble Navigation	\$53.63	Global Positioning

California Technology Stocks

Technology stocks were mixed in December as the strong run from mid-June appears to be slowing. Though the massive Consumer Electronics Show in Las Vegas and multitudes of January investment banking conferences may buoy technology stocks this month, looming Q4 earnings reports will ultimately dictate trading action in the first quarter.

The all important chip sector has begun to experience a few notable preannouncements including **Micrel** and **Virage Logic**. **National Semiconductor's** reduced revenue guidance indicates further weakness in chip demand for cell phones. Market consensus remains that the first half of 2007 will show moderating demand with a renewed pick-up expected by late 2007. **Intel** kicks off earnings on January 16 (see following page).

Among our favorite technology stocks, we continue to favor many of the larger names in the group such as **Cisco**, **H-P**, **Google** and **Sun Micro**.

Cisco, in particular, is benefiting from a resurgence in router demand fueled by broadband applications. The acquisition of Scientific-Atlanta appears to be paying off for the company in the race to the home box.

Shares of video conferencer **Polycom** have been flying as it appears VOIP is the necessary ingredient in finally making its systems cost effective.

We continue to remain big fans of H-P, **Smart Modular** and **Iomega** all members of our California Golden Bulls portfolios.

TECHNOLOGY STOCKS TO WATCH

Intel (Rating: 2.5)

As we mentioned, Intel kicks off fourth quarter earnings for the technology sector on January 16. After initiating a punishing price war in 2006 aimed directly at Advanced Micro to protect against further market share loss, Intel has aggressively launched an array of new products including its line of dual and quad-core processors.

We would expect these new products to reinvigorate top-line growth and help repair Intel's sagging margins. We are seeing improvement in institutional activity but not enough to bring us out of the bear camp at present. Let's see what those numbers look like...

Apple, Inc. (Rating: 2.3)

As we head to print, the newly christened Apple, Inc. has released a flurry of new products at MacWorld 2007. Along with the highly anticipated debut of the iPhone which ports to the Mac and allows users to upload contacts, email and music, the company unveiled Apple TV. The new console will ship in February and interface a computer and TV set to view downloadable movies, TV shows, music, photos and podcasts.

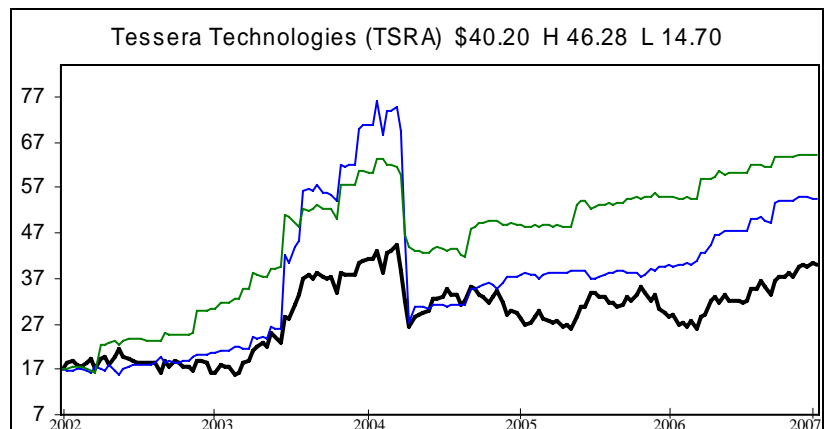
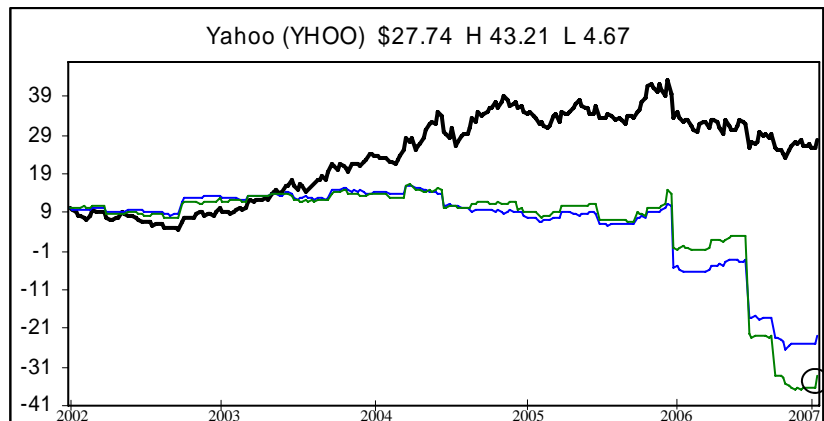
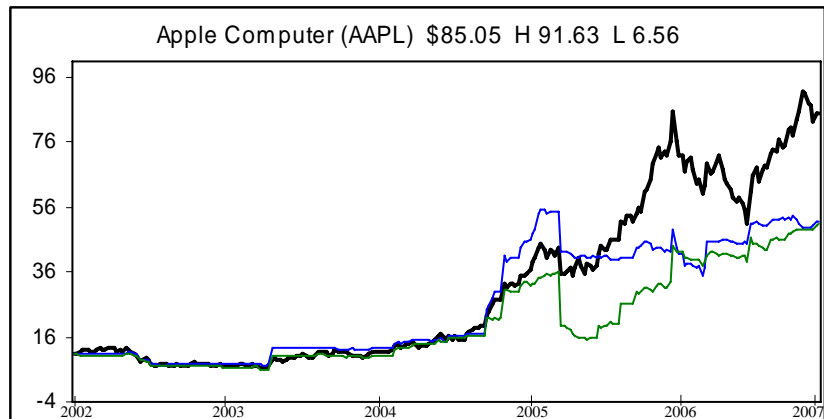
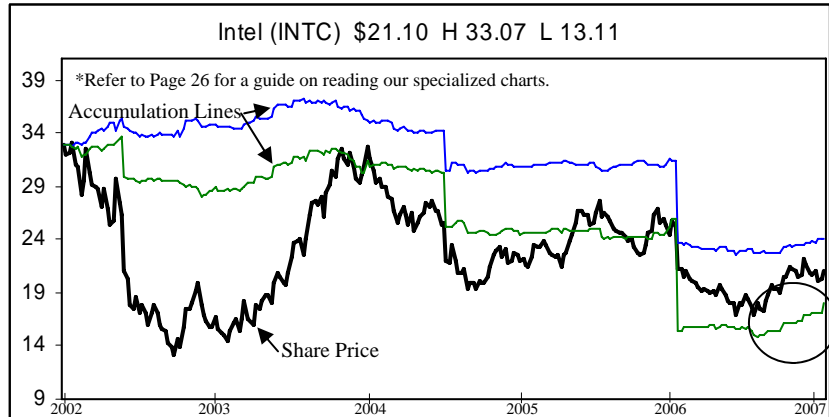
Apple, set to release earnings on January 17, is expected to once again trounce expectations. iPod sales surged over the Holiday temporarily crashing its iTunes site and the new Intel-based Mac's are revitalizing computer sales.

Yahoo (Rating: 2.8)

With Yahoo's Panama project formally launched, investors appear to be taking a speculative dip back into the stock. While it is too early to declare victory, Panama is the first step in a crusade to win back market share lost to Google. As a recent company memo revealed, however, Yahoo may be more realistic in just trying to keep its present share from eroding further.

Tessera Technologies (Rating: 2.2)

One of the solid tech performers since early 2006 has been Tessera, a company that provides miniaturization technology to various industries including computer memory chips. Accumulation remains very positive.



TECHNOLOGY STOCKS TO WATCH

Lam Research (Rating: 2.5)

Despite worries over the health of spending by chip companies on the purchase of new equipment, institutional investors appear to be solidly behind the shares of Lam Research. One of the chip equipment bellwethers, Lam will report second quarter earnings on January 17. Lead by a surge in demand for equipment used in the production of memory chips, particularly flash, Lam has blown out estimates for four straight quarters.

Cymer (Rating: 2.8)

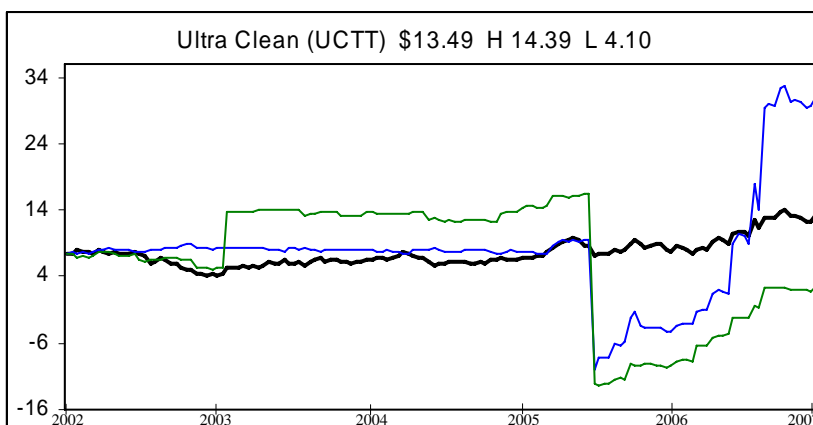
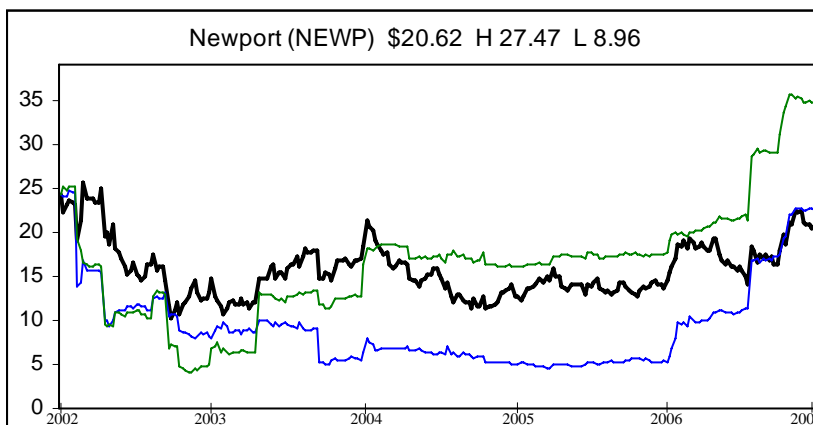
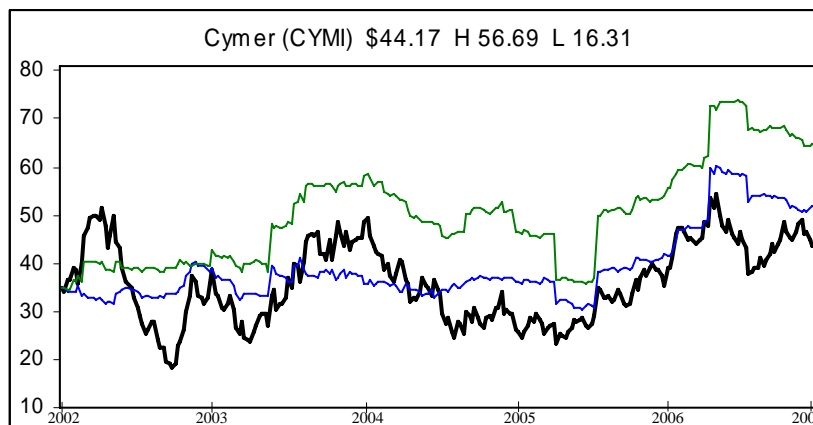
One of our true favorites is Cymer. Cymer holds more than 80% share in the market for lasers used to etch chips and has recently developed next generation product equipment used in the manufacture of flat panel displays. Cymer shares have moderated recently as the company reported that it expected a "pause" in Q4 as certain customers delayed shipments into the first quarter of 2007. The market clearly remains uncertain if the so-called pause will continue into the second quarter. The accumulation pattern in the stock has turned negative near-term and we remain on the sidelines for now.

Newport (Rating: 2.3)

Revenue and earnings growth continue to be strong for Newport, the maker of a broad range of scientific instruments, lasers and light sources. With a significant percentage of sales to the semiconductor industry, Newport shares reflect the volatility of the chip market. Currently, the accumulation trend has been highly favorable despite its shares trading somewhat erratically. We remain positive on Newport heading into its fourth quarter earnings report on January 31.

Ultra Clean (Rating: 2.2)

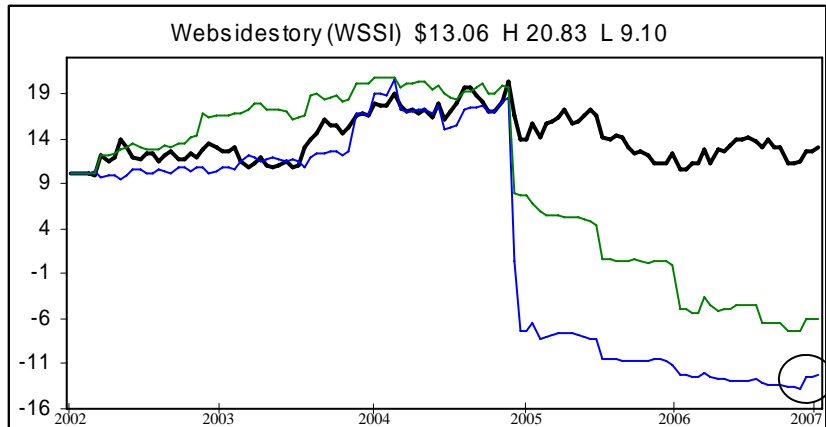
One stock exhibiting a tremendous degree of accumulation is Ultra Clean Holdings. Ultra Clean produces gas and liquid delivery systems for use by chip equipment manufacturers. Sales to Applied Materials, Lam Research and Novellus Systems accounted for 89% of total revenue in 2005. As Lam's earnings reflect, demand remains strong.



TECHNOLOGY STOCKS TO WATCH

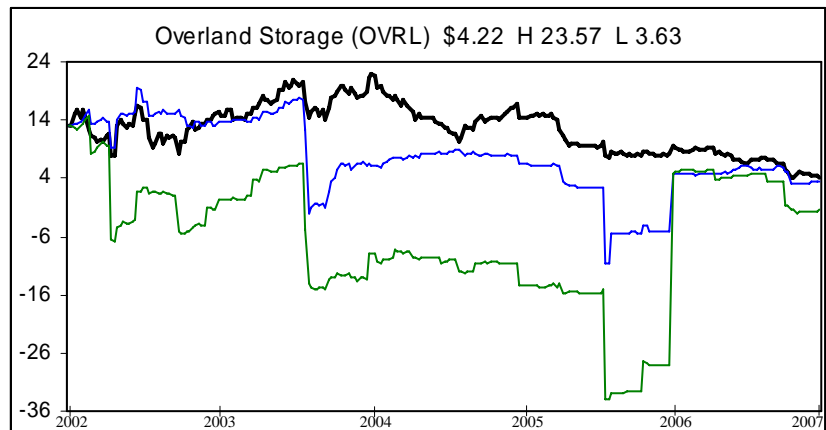
Websidestory (Rating: 2.3)

Is struggling Websidestory finally poised for a turnaround? Despite growing concern that giants such as Microsoft and Google will make the company's portfolio of Web analytic products obsolete, Websidestory posted third quarter numbers that showed broad strength and it boosted expectations for Q4. The notch in accumulation (circled area) may prove timely for bottom fishers and we are raising our rating.



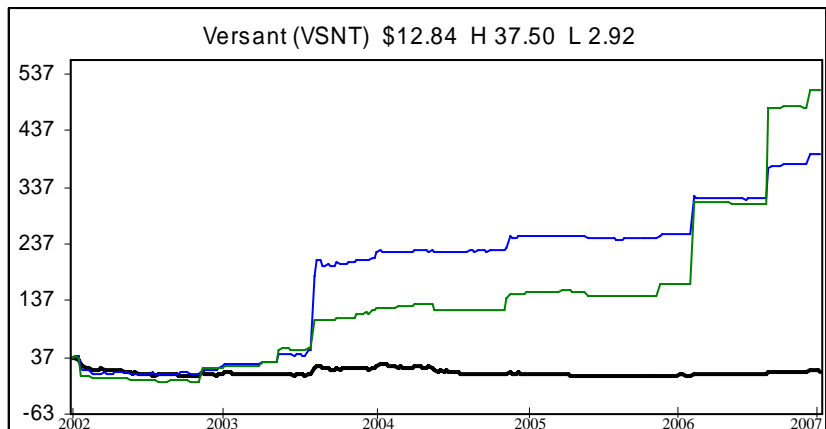
Overland Storage (Rating: 3.4)

After "value" investors used the company's stock crash to buy below \$4, Overland shares are once again approaching cash value at \$3.53. As we mentioned a couple issues previous, the key for the maker of data storage solutions will be to stop hemorrhaging related to the loss of IBM business and the customer/non-customer Dell. We believe interim CEO Scott McClendon is the right man for the job and we will await second quarter numbers to gauge progress before rendering a more positive opinion here.



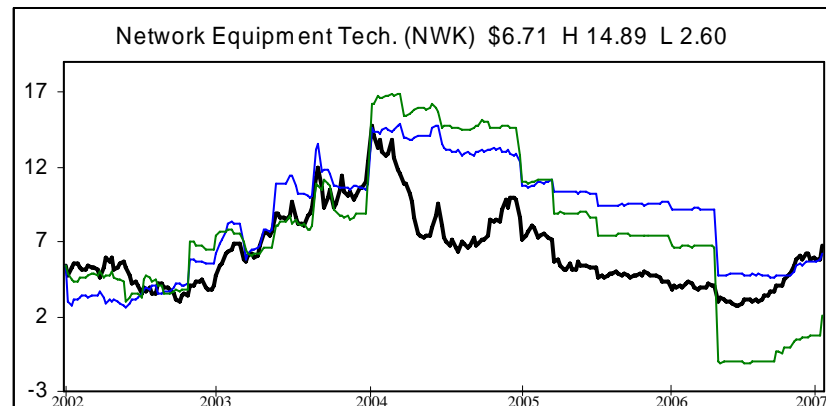
Versant (Rating: 2.3)

Tiny Versant continues to deliver the goods with fourth quarter numbers showing an incredible net income margin of 27%. The company posted Q4 EPS of \$0.35 on revenue of \$4.6 million, up 20%. Versant, a maker of data management software, provided fiscal 2007 guidance that calls for flat revenue growth but 10-15% growth in operating income that implies EPS of \$1.10-1.15. Accumulation remains impressive.



Network Equipment (Rating: 2.4)

Network Equipment shares appear poised for a breakout after the telecom equipment maker raised its FY07 revenue expectations to \$82-84 million. The company reported that it is seeing the highest level of sales activity in more than two years for products such as its network exchange and IP telephony solutions. Network Equipment shares could receive a further boost when the company presents on January 11 at the Needham conference. These shares are a speculative buy.



California Biotech Review

Ratings and Analysis of California-Based Biotechnology Stocks

Top 25 California Biotechnology Stocks				
Rating	Ticker	Company	Close	Business
1.8	DNA	Genentech	\$83.68	Biotechnology
2.2	BMRN	BioMarin Pharm.	\$16.51	Biotechnology
2.3	AMGN	Amgen	\$71.50	Biotechnology
2.4	AMLN	Amylin Pharm.	\$37.61	Biotechnology: Diabetes
2.4	CYTK	Cytokinetics	\$7.86	Biotechnology
2.4	ITMN	InterMune	\$30.17	Biotechnology: Lung Disease
2.5	SGXP	SGX Pharm.	\$3.25	Biotechnology: Cancer
2.5	DVSA	Diversa	\$10.50	Biotechnology: Enzymes
2.5	GILD	Gilead Sciences	\$64.21	Biotechnology
2.5	ARNA	Arena Pharm.	\$12.79	Biotechnology: Weight Loss
2.5	STEM	StemCells	\$3.32	Biotechnology: Stem Cell
2.5	THLD	Threshold Pharm.	\$3.36	Biotechnology
2.6	LGND	Ligand Pharm.	\$11.31	Biotechnology
2.6	VICL	Vical	\$6.71	Biotechnology
2.6	SUPG	SuperGen	\$5.13	Biotechnology
2.6	HTI	Halozyme Thera.	\$7.65	Biotechnology: Drug Deliv.
2.6	GHDX	Genomic Health	\$19.60	Biotechnology: Breast
2.6	MAXY	Maxygen	\$10.98	Biotechnology
2.7	KOSN	Kosan Biosciences	\$5.86	Biotechnology
2.7	EXEL	Exelixis	\$9.50	Biotechnology
2.7	THRX	Theravance	\$31.54	Biotechnology
2.7	NGEN	Nanogen	\$1.85	Biotechnology
2.7	SOMX	Somaxon Pharm.	\$13.75	Biotechnology: Insomnia
2.7	TRCA	Tercica	\$4.91	Biotechnology
2.8	ISIS	Isis Pharmaceuticals	\$11.32	Biotechnology: Antisense

California Biotech Stocks

2006 will go down as a rather forgettable year for small and mid-size biotechnology companies.

A host of major clinical bombs last year seems to reinforce the notion year after year that the safest way to invest in biotechnology is to only take positions in FDA approved companies... though companies then need to prove that they can sell their drugs (**Tercica** immediately comes to mind).

The shocking collapse of **Neurocrine Biosciences** that, in short order, shed \$52, or 83% from its share price after receiving an "approvable" letter from the FDA for its insomnia treatment was the most notable debacle in 2006. Others included **Nuvelo** and **Telik**, each down more than 70% in December alone, **Renovis** and **Threshold Pharmaceuticals**. Buyer thus beware...

With this commentary as a backdrop it should come as no surprise that **Genentech** remains our favorite biotech in January. We believe the company's valuation has now caught up to its share price and Q4 earnings on January 10 should show more of the same remarkable operational growth.

Shares of **BioMarin** continue to climb on higher forecasted sales of its FDA approved enzyme replacement drugs that protect against cell damage.

Amgen reports on January 25 and we believe these shares are experiencing pent-up demand similar to Genentech. We continue to like the stock.

Finally, though **Amylin** is now seeing competition from Merck for its diabetes treatment, we think these shares are far oversold.

BIOTECHNOLOGY STOCKS TO WATCH

InterMune (Rating: 2.4)

Shares of InterMune took flight in December on the release of positive Phase III trial results of its drug pirfenidone in patients with a lower respiratory tract disease called idiopathic pulmonary fibrosis. Institutional investors actually began taking positions in InterMune in late 2005 (Point 1). While we are highly impressed with the degree of recent buying in the stock, there will be a large amount of stock coming onto the market following a \$175 million shelf filing by the company and a registration to sell 7.36 million shares by holder Warburg Pincus. We will re-evaluate the stock on any weakness.

Onyx Pharmaceuticals (Rating: 3.2)

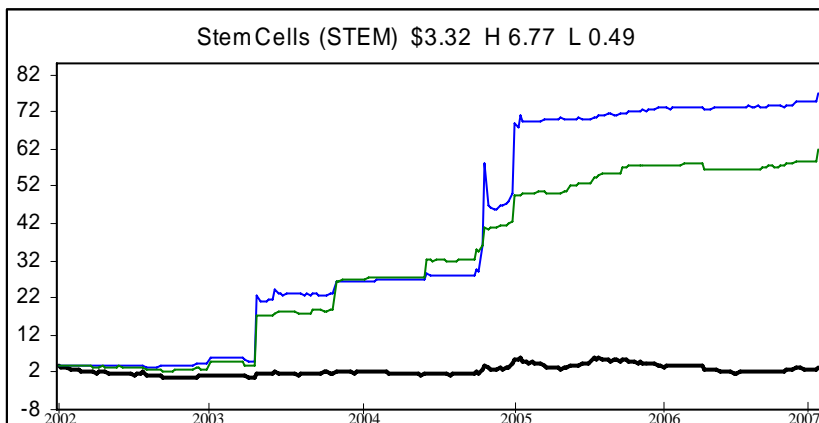
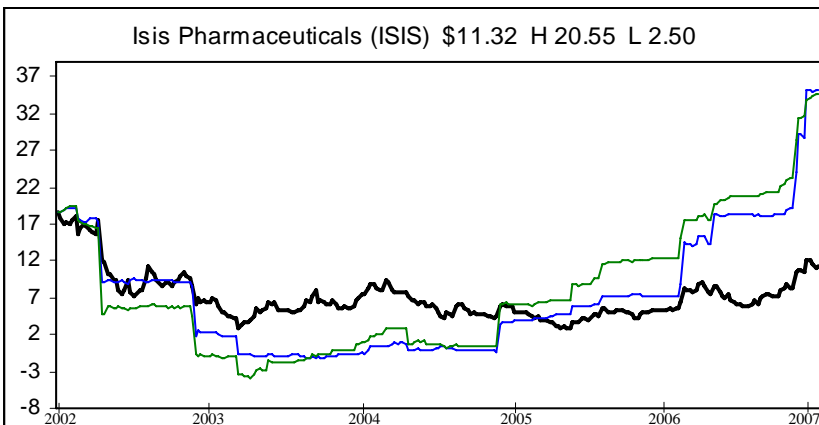
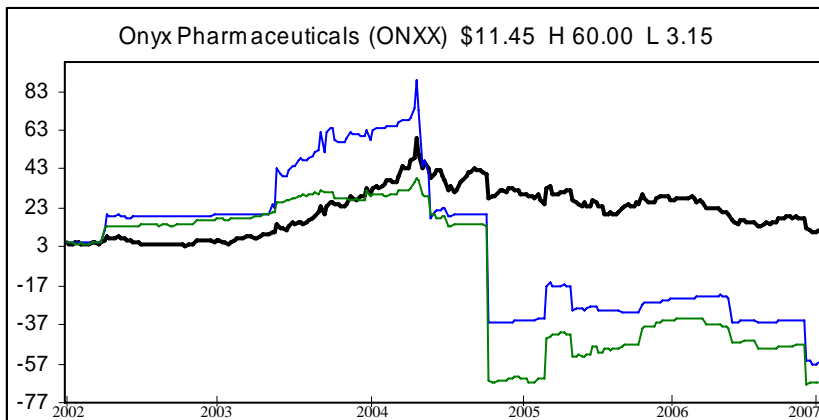
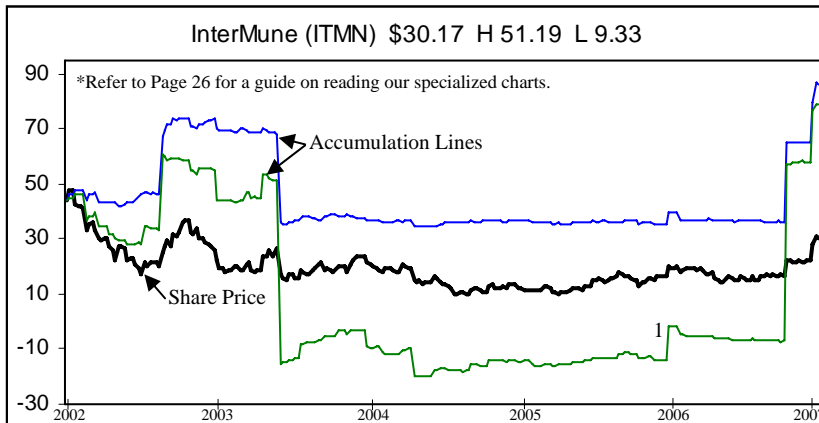
Onyx shares continue to plummet despite approval of Nexavar with partner Bayer to treat kidney cancer. Nexavar revenue in Q3 was \$45.4 million, up 41% sequentially, although all of this revenue is consolidated onto Bayer's income statement. Onyx reports only the gain or, in this quarter, a collaborative loss of \$3.6 million. The complexity of Onyx's reporting and the recent failure of Nexavar in Phase III trials for melanoma has hurt these shares. With \$5 per share in cash there will be a bottom somewhere, probably in the upper single digit share prices.

Isis Pharmaceuticals (Rating: 2.8)

Isis shares have cooled a bit since reporting strong Phase II data on its LDL, or bad cholesterol treating drug. With \$126 million in cash and a current burn rate of roughly \$20 million per quarter we think management will look to do a secondary offering on any further price gains. Needless to say, Insider's have been dumping shares like there is no tomorrow. Still a long road ahead for Isis...

StemCells (Rating: 2.5)

The share price of StemCells has begun a renewed upward ascent as Democrats look to assert their new found power to fund stem cell research. While StemCells is not our favorite stem cell play its name alone has made the company an unlikely industry bellwether.



California Financial Review

Ratings and Analysis of California-Based Financial Stocks

Top 25 California Financial Stocks				
Rating	Ticker	Company	Close	Business
2.0	CBG	CB Richard Ellis	\$33.10	Commercial Real Estate
2.0	KRC	Kilroy Realty	\$77.86	REIT: Office Properties
2.0	PSA	Public Storage	\$97.05	REIT: Storage
2.0	BEN	Franklin Resources	\$111.77	Investment Management
2.0	BRE	BRE Properties	\$63.25	REIT: Apartments
2.1	WFC	Wells Fargo	\$35.60	Major Bank
2.1	SCHW	Charles Schwab	\$19.20	Investment Broker
2.2	FED	FirstFed Financial	\$66.29	Savings Bank
2.2	HAFC	Hanmi Financial	\$22.10	Regional Bank
2.2	TCBK	TriCo Bancshares	\$26.69	Regional Banks
2.2	HTBK	Heritage Commerce	\$26.00	Regional Banks
2.3	MAC	Macerich	\$85.76	REIT: Shopping Centers
2.3	FRGB	First Regional Bncp.	\$34.10	Regional Bank
2.3	ECR	ECC Capital	\$1.19	REIT: Mortgage Loans
2.3	SIVB	SVB Financial	\$46.50	Regional Bank
2.3	MCY	Mercury General	\$53.10	Insurance: Prop/Casualty
2.3	RYL	Ryland Group	\$52.61	Homebuilding
2.4	AMRB	American River Bank	\$23.98	Regional Banks
2.4	AMB	AMB Property	\$56.75	REIT: Industrial Properties
2.4	KFED	K-Fed Bancorp	\$19.15	Savings Bank
2.4	DEI	Douglas Emmett	\$26.22	REIT
2.4	PMI	PMI Group	\$47.54	Mortgage Insurance
2.4	CALC	California Coastal	\$20.56	Homebuilding, Land Dev.
2.5	WIBC	Wilshire Bancorp	\$18.76	Savings Bank
2.6	PCBC	Pacific Capital Bncp.	\$32.91	Regional Bank

California Financial Stocks

The much hoped for first half 2007 Federal Reserve rate cut is beginning to look like a faded memory.

A strong end of year Chicago Purchasing Managers Index reading and rebounding consumer confidence sent investors in rate-sensitive stocks flooding to the exits.

Heading into the first quarter we remain concerned that the meltdown in housing, which has already torpedoed mortgage lenders, will spill over into the banking sector. Loan loss reserves have already begun to pile-up at savings & loans such as Newport Beach-based **Downey**.

Among REITs there is growing concern that the six-year bull market will come to an end in 2007. Awash with capital, market pros are complaining that there is too much cash chasing too few properties. The recent surge in REIT acquisitions, with four alone in California during 2006, is a strong indication that big investors are abandoning pricey individual properties in favor of more attractively valued REITs.

Homebuilders also appear to be rolling over, particularly after a dismal report from Lennar and comments that there is no foreseeable end to the housing decline.

Among our favorites, international real estate broker **CB Richard Ellis** is seeing the largest degree of institutional buying despite a big run. Investment firms **Franklin Resources** and **Charles Schwab** are top selections as is our top rated bank **Wells Fargo**.

FINANCIAL STOCKS TO WATCH

Wells Fargo (Rating: 2.1)

One bank that has remained largely impervious to the trend of interest rates is Wells Fargo. Despite its stature as one of the largest mortgage originators in the country, Wells continues to post solid year over year growth. The accumulation trend has also picked up in recent months in an apparent fund manager "flight to safety." Wells Fargo remains our top rated California bank.

First Community Bancp. (Rating: 3.1)

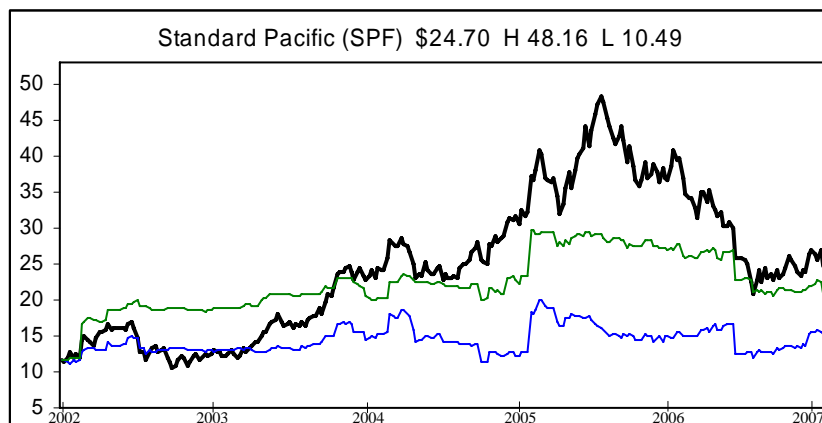
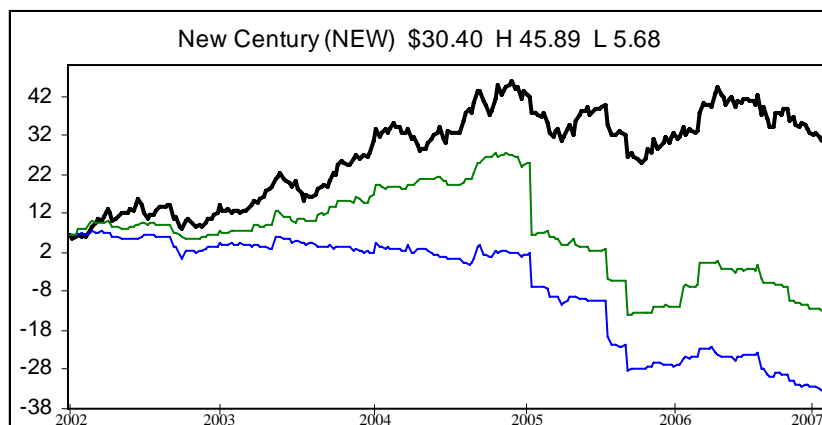
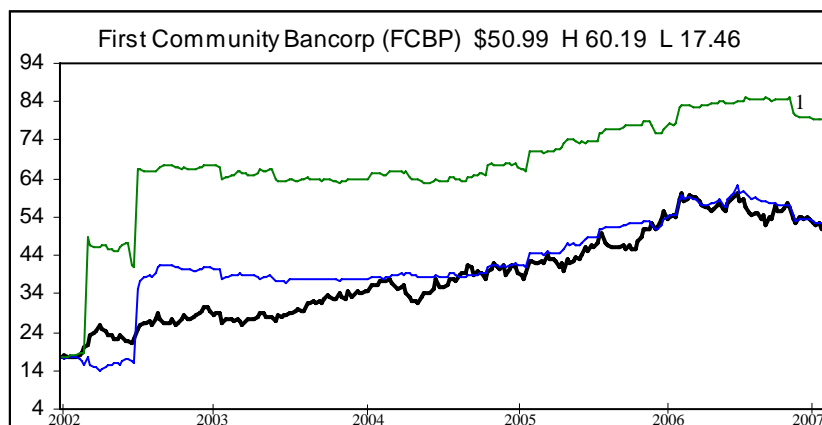
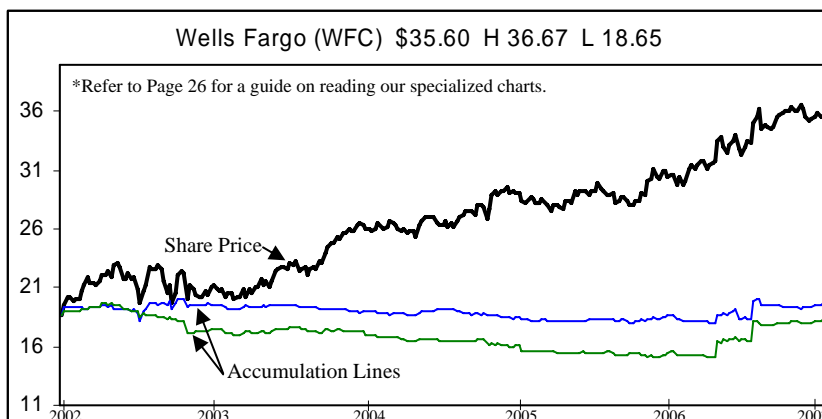
One bank that is beginning to show signs of wear and tear from institutional sellers is San Diego County-based First Community. First Community has taken advantage of its strong share price to make acquisitions such as Community Bancorp in 2006 and Foothill Independent in late 2005. However, the notch down at "1" shows that institutional investors have decided to capture gains in a move that we believe will lead to further selling. We would take profits into strength.

New Century (Rating: 3.6)

Boasting the richest dividend in California at \$7.60 per share, subprime mortgage lender New Century is currently yielding an incredible 25%! The downtrend in accumulation, however, shows that the Smart Money is steering clear of this big dividend. With deteriorating conditions in the housing market and the Fed apparently no closer to lowering interest rates than several months ago, investors are betting that New Century will be forced to cut its big dividend in the near future. While tempting, we would advise investors to remain on the sidelines until industry conditions improve.

Standard Pacific (Rating: 3.7)

Standard Pacific shares appear to be on the verge of rolling over again. The leading Southwestern homebuilder operates in all of the right markets but, in today's environment, at the wrong time. We believe Standard Pacific is the most vulnerable of the major builders and we have added these shares to our new California Golden Bears list of stocks to avoid.



California Medical Review

Ratings and Analysis of California-Based Medical Stocks

Top 25 California Medical Stocks				
Rating	Ticker	Company	Close	Business
1.9	RMD	ResMed	\$48.92	Medical Device: Respiratory
1.9	DJO	DJO, Inc.	\$43.00	Medical Device: Soft Tissue
2.1	BIO	Bio-Rad Labs	\$81.41	Medical: Diagnostics
2.1	KYPH	Kyphon	\$40.85	Medical: Spinal
2.1	MEND	Micrus	\$19.77	Medical Devices: Aneurysm
2.2	BSTE	Biosite	\$55.06	Medical: Diagnostics
2.2	GPRO	Gen-Probe	\$52.25	Medical: Diagnostics
2.2	AFFX	Affymetrix	\$21.72	Genetic Analysis Prods.
2.3	IRIS	IRIS International	\$12.53	Medical: Diagnostics
2.3	ILMN	Illumina	\$38.61	Genetic Analysis Products
2.3	EW	Edwards Life.	\$47.90	Medical Device: Heart Valve
2.3	IFLO	I-Flow	\$15.94	Medical: Infusion Systems
2.3	VAR	Varian Medical	\$47.99	Medical-Oncology Products
2.3	VNUS	VNUS Medical	\$8.89	Medical Specialties
2.4	ILSE	IntraLase	\$22.23	Medical: Eye Lasers
2.4	BABY	Natus Medical	\$16.31	Medical: Newborn Prods
2.4	BARE	Bare Escentuals	\$32.86	Cosmetics, Skin Care
2.4	RITA	RITA Medical	\$4.64	Medical Specialties
2.5	COO	Cooper Companies	\$47.01	Contact Lenses, Surgical
2.6	ICUI	ICU Medical	\$40.62	Medical: IV Products
2.6	ISTA	ISTA Pharm,	\$7.03	Medical: Eye Conditions
2.6	WOOF	VCA Antech	\$32.34	Pet Hospitals, Labs
2.6	NUVA	NuVasive	\$22.17	Medical Device: Spine
2.6	CUTR	Cutera	\$27.70	Laser Skin Treatment
2.6	THOR	Thoratec	\$17.44	Medical Device: Heart VAD

California Medical Stocks

Medical technology stocks remain a great place for more conservative investors. California's rich collection of medical device and related medical stocks provides a strong and exciting prospect list for investors.

While reimbursement risk is always a concern, particularly now that there is a medical reform-minded Democratic Congress in office, we believe the potential rewards in this sector still far outweigh the risks.

Among our favorites for much of 2006, San Diego-based **ResMed** and **DJO, Inc.** lead the list. We feature ResMed on the following page. DJO makes a host of products for soft tissue and sports-related injuries including rigid and padded braces for knees and elbows. We expect 2007 earnings to rise sharply for DJO following its acquisition of Aircast.

Bio-Rad produces chemical and biological materials that are used in the medical laboratory and research setting. Earnings continue to outperform.

Kyphon shares were the Number Three dollar gainer in California during December rising \$7.33, or 22% for the month (see page 13) on its shrewd acquisition of spinal disease company St. Francis.

Shares of **Biosite** have improved of late as the maker of the Triage line of diagnostic tests, including a popular marker to detect heart disease, heads into its Q4 report.

Other favorites include **Gen-Probe**, heart value maker **Edwards Lifesciences** and **Varian**.

MEDICAL STOCKS TO WATCH

Allergan (Rating: 2.0)

Shares of Allergan remain a market leader. The company has built an impressive franchise which today includes its flagship Refresh eye care line, silicon breast implants through its 2006 acquisition of Inamed and, of course, wrinkle remover Botox. Botox itself continues to grow at a 20% clip with sales of approximately \$1 billion. Allergan added its dermal filler Juvederm in September in what is estimated to be a \$500 million market worldwide. While these shares carry a premium we believe they remain highly attractive longer-term in addition to being a potential takeover target.

ResMed (Rating: 1.9)

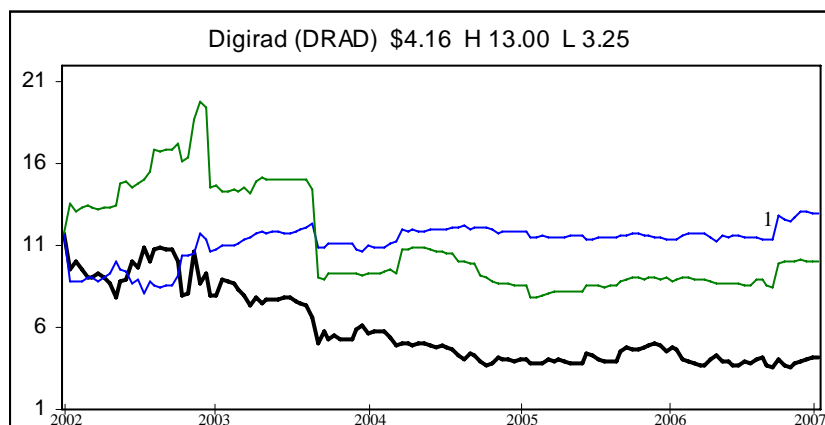
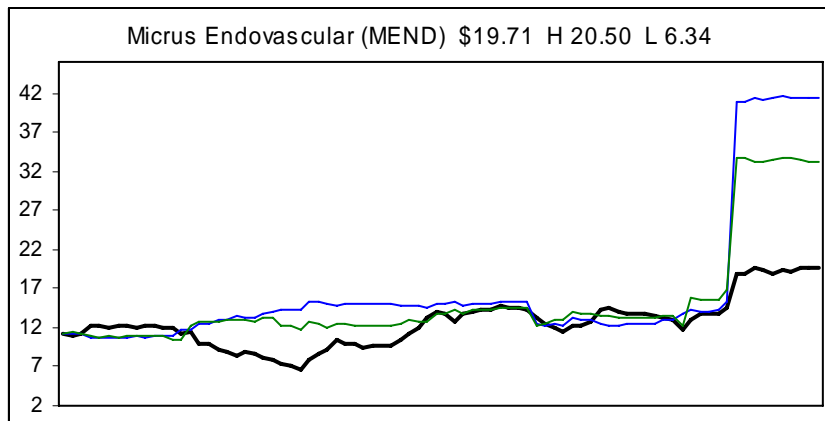
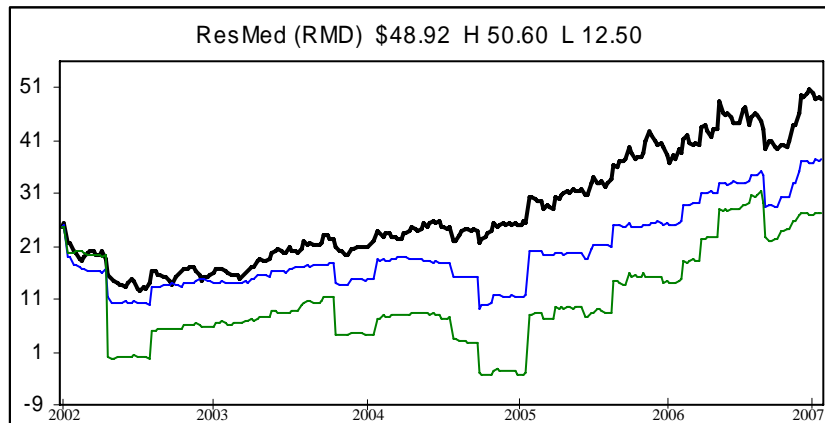
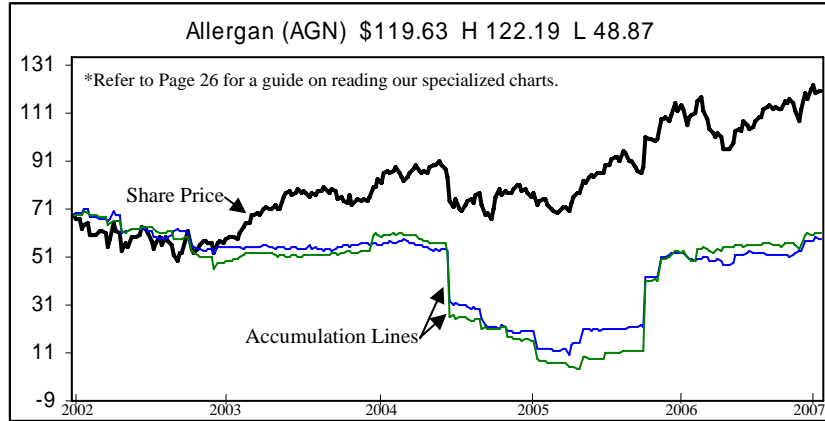
One of our core medical stock favorites is ResMed. The maker of products used in the treatment of sleep apnea and other sleep-related disorders has posted a spectacularly consistent 46 straight record quarters. Worldwide awareness of sleep apnea as a potential cause of significant ailments including heart disease has grown but remains relatively small. We expect ResMed to report its Q2 earnings in early February.

Micrus Endovascular (Rating: 2.1)

Micrus Endovascular shares have been on a roll since reporting a much better than expected Q2. Micrus makes the ACT MicroCoil System used in the treatment of aneurysms. Second quarter revenue jumped 137% to \$14.6 million and the company narrowly missed turning its first profit. We originally had these shares in our Golden Bulls Small-Cap portfolio and exited our position on a round of institutional selling. Wish we could take back that decision...

Digirad (Rating: 2.9)

Small perennial underperformer Digirad is seeing some institutional interest for the first time in almost three years (Point 1). The company provides mobile cardiovascular imaging services through its fleet of vans that arrive directly at doctors offices. Digirad has suffered through a series of missteps over the years but new products could spark a turnaround.



Leedom Charts-The Core of Our Analysis

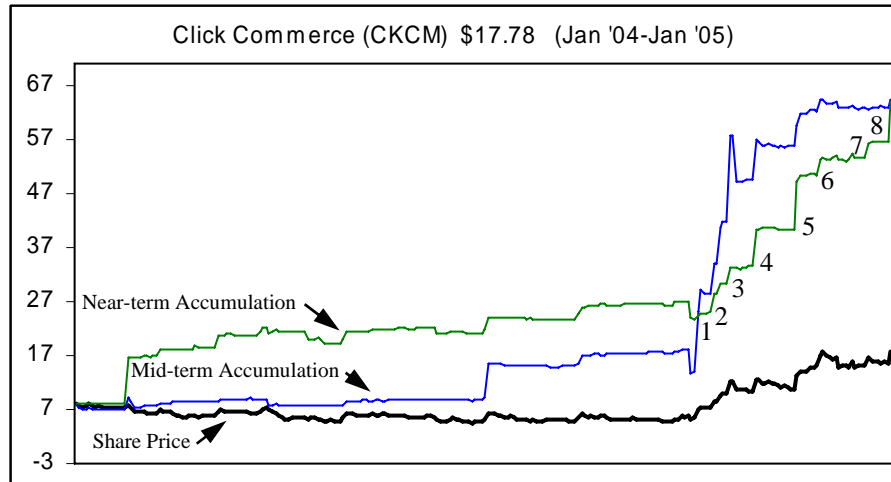
Leedom Charts

The *California Stock Report* uses a proprietary technique called Leedom Charts that detects secretive institutional buying and selling activity. Leedom Charts are produced using a proprietary algorithm developed 12 years ago by Bud Leedom, a former fund manager and noted Wall Street analyst. The significance of Leedom Charts are their ability to provide investors with a unique thumbprint of institutional activity for any given stock. This information provides a rare glimpse into the market's "institutional thinking" and can be used to make timely buy and sell decisions.

The engine of the Leedom Chart is the creation of an analytical supply/demand equation for each stock. Institutionally driven imbalances create upward or downward "spikes" on the near-term and mid-term accumulation lines (points 1-10 on both charts). The magnitude indicates the degree of buying or selling pressure. Multiple positive spike activity indicates a pattern of institutional buying, with the opposite true during institutional selling.

Click Commerce Example

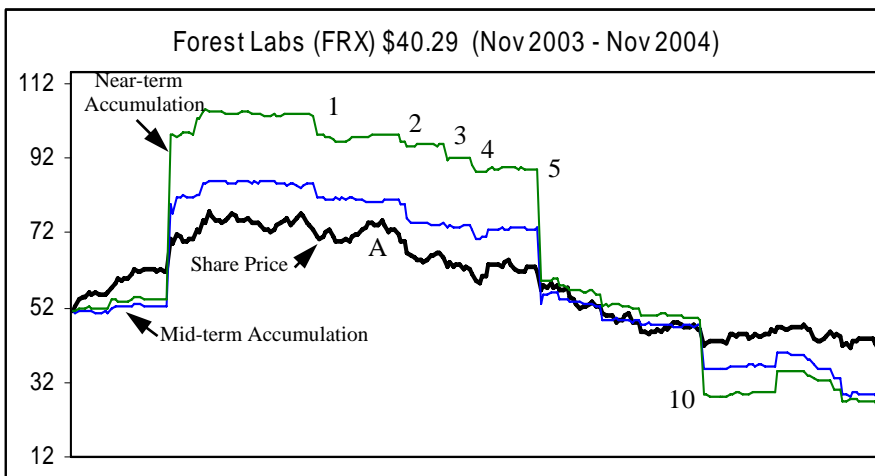
The Leedom Chart of Click Commerce (above) is a prime example of institutional accumulation. A stock under accumulation typically exhibits consistent, multiple upward spikes in accumulation even during intermittent periods of declining share prices. In this example, both the near-term



"green" accumulation line (shorter-term moving average of accumulation) and mid-term "blue" accumulation line (longer-term moving average of accumulation) confirm heavy buying of shares. The example provided above is a classic buy pattern that we seek to identify in this report.

Forest Labs Example

Forest Labs (below) is an example of consistent institutional selling over a period of nine months. In contrast to the example above, negative institutional activity is seen as multiple downward spikes on both the green and blue accumulation lines. Under Leedom Chart analysis, investors should look to avoid stocks with these downward spike patterns. A short sale position can be taken after an advance in share price against a flat or negative accumulation trend.



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